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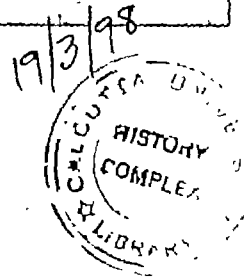
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"As we listen to the death rattles of the peace process, it is past time to acknowledge the obvious. Under the leadership of President Clinton, the United States has proved itself incapable of playing the role of honest broker in the difficult negotiations between Israel and the Palestinian Authority."

Clinton's Middle East Legacy: A Scuttled Peace?

AUGUSTUS RICHARD NORTON



On November 16, 1997, United States Secretary of State Madeleine Albright traveled to Doha, the capital of the oil- and gas-rich sheikhdom of Qatar, to take part in a long-planned regional economic conference. What might have been a step toward building a peaceful Middle East turned into a major embarrassment for United States policy, especially against the backdrop of Iraqi President Saddam Hussein's nose thumbing at the UN sanctions imposed after Iraq's defeat in the 1991 Persian Gulf War. Without forward momentum in the peace process between Israel and the Palestinian Authority, few Arab states were willing to send delegations. Most of America's key Arab friends—Egypt, Saudi Arabia, and Morocco—boycotted the meeting, citing the obstructionist tactics of Israeli Prime Minister Benjamin Netanyahu and the diplomatic passivity of the United States.

Qatar, like many of the Arab states of the Gulf, had sensed economic opportunity as a dividend of the 1993 Oslo accords. The Doha meeting was the fourth in a series of economic conferences that began in Casablanca in 1994 with the goal of bringing together officials, experts, and businesspeople for multilateral and bilateral deal making. Just a few months before, Albright had emphasized in a major

policy speech that the Doha meeting was central to the peace process and the economic future of the Middle East.

Until the no-show Doha session, the unsung multilateral dimension of the peace process had been remarkably successful, not least in fostering the normalization of relations between Israel and its neighbors. In addition to peace agreements with Egypt, Jordan, and the Palestinians, Israel now has quasi—if not official—relations with Morocco, Oman, Qatar, Tunisia, and the United Arab Emirates. Even Saudi diplomats and businessmen have interacted cordially with their Israeli counterparts at earlier sessions. Now these achievements have been put in jeopardy by the dying peace process.

At the same time, as Washington signaled its intent to use force to ensure Iraqi compliance with UN-mandated weapons program inspections, it discovered that the unilateral use of force against Iraq had little support among its Arab allies. There are several reasons for this collapse in support, including the widespread view that the sanctions regime has punished innocent Iraqis while leaving members of the ruling clique unscathed. Equally important, Washington's aggressive enforcement of UN resolutions against Iraq is often contrasted in the Arab media with American reluctance to demand that Israel meet its explicit obligations under the Oslo accords.

These developments illustrate that the health of the peace process deeply affects the fate of other United States interests in the Middle East. Policy-

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makers naturally try to minimize these linkages, but this is only damage control, as senior United States officials privately concede.

The assumption that the peace process would inevitably reach its destination has lulled President Bill Clinton and his key advisers into a fantasy construction of the Middle East in which the obvious regional linkages have often been neglected. Peace between Palestinians and Israelis may only be a matter of time, as Albright argued in her pre-Doha speech, but the intervening period will remain perilous for all concerned, especially America's Arab friends.

This peril is clearly illustrated in Jordan, which signed a peace treaty with Israel in 1994. The political opposition in Jordan complains that there has been no peace dividend and that Israel's stonewalling of the Oslo agreement has been abetted by the United States. These are serious complaints, especially since more than half the kingdom's citizens are Palestinian Arabs. King Hussein has imposed severe restraints on the press and on freedom of speech in an attempt to intimidate critical voices, thereby jeopardizing the kingdom's fledgling experiment in democracy. Progress in the negotiations between Israel and the Palestinians thus has a direct bearing on the fate of political reform in neighboring states.

THE WHITE HOUSE CATERERS

Since September 1993, when President Clinton essentially catered the signing of the Oslo accords on the White House lawn, the United States has been only a shadow presence in the peace process. Rather than lending momentum to the effort, Clinton and his subordinates have been content to allow the negotiations to take their own course. For more than two years this approach sputtered along. Oslo was constructed on a foundation of confidence-building measures, and the central premise of the agreement was that trust would be built between Palestinians and Israelis through gradual implementation of these measures. The most contentious issues, especially the status of Jerusalem, would be saved for last, by which time sufficient confidence would presumably exist to permit a reasonable compromise. Despite the major differences that divided them, Israeli Prime Minister Yitzhak Rabin, Israeli Foreign Minister Shimon Peres, and Palestinian President Yasir Arafat attained a historic con-

sensus. These men were truly partners in peace, as symbolized by the dramatic handshake between Rabin, the gruff old soldier, and Arafat, the veteran guerrilla leader. Israeli leaders were coy about what they said in public, but there was never much doubt that they understood privately that there would be a Palestinian state at the end of the process. This understanding was made concrete in a paper drafted by Deputy Foreign Minister Yossi Beilin and the chief Palestinian negotiator, Abu Mazin.

The assassination of Rabin in November 1995, by an Israeli college student, and the election of Netanyahu in May 1996 marked the end of a remarkable two and a half years of progress toward peace. During this time Israel began the process of withdrawing from most of the Gaza Strip (leaving behind protected enclaves inhabited by about 3,000 settlers). On the West Bank, Israeli forces withdrew from all the major cities except Hebron. Nonetheless, Israel retained control of over 90 percent of the territory, including East Jerusalem and the West Bank settlements where over 120,000 Israelis make their homes.

The new prime minister, elected on the promise of "peace with security," a slogan with visceral appeal for many Israeli voters after a series of terror bombings in early 1996, has approached the Oslo accords with disdain. Many astute Israeli observers, including the distinguished journalist Ze'ev Schiff, argue that Netanyahu intends to kill the peace process, despite the fact that 60 percent of Israelis would accept a demilitarized Palestinian state and even some sharing of Jerusalem in order to achieve peace.¹ Netanyahu rejects the idea of Palestinian statehood and he seems content to leave Yasir Arafat and his lieutenants tenuously ensconced in bantustans.

Consistent with this perspective, Israel has offered little beyond cosmetic withdrawals to the Palestinians. Thus, on March 7, 1997, in order to belatedly meet its obligation under the Oslo agreements, the Israeli cabinet approved a withdrawal of its forces from 2 percent of the West Bank, but most of the area affected was already under Palestinian control. The offer—promptly rejected by the Palestinians—reflects the composition of Israel's coalition government, which is heavily dependent on the support of religious parties that have declared their opposition to further withdrawals by Israel. The United States accepted the Israeli offer, although official spokespeople expressed the hope that future withdrawals would be more generous. With United States support, Israel claims the right to unilaterally determine the scope of its withdrawals.

¹Gallup poll cited in *The New York Times*, August 4, 1997.

Netanyahu's obduracy has hardly endeared him to the Clinton administration, which made no secret of its preference for his electoral opponent, Shimon Peres, one of the architects of Oslo. The administration has "adapted its policy" to Israel's Likud government, in the later officially corrected but startlingly accurate confession of then Secretary of State Warren Christopher. Adapting to the new Israeli government meant allowing it to interpret Oslo as though Israel's responsibilities were optional and those of the Palestinians mandatory.

Israel's strategy has been to keep the United States as far from the negotiating table as possible. Since the United States was rhetorically committed to supporting the Oslo accords, it was viewed by Israel as a *de facto* ally of the Palestinian Authority. The Clinton administration, meanwhile, has been content to do little more than pass proposals from one side to the other, rather than putting forth its own. The very idea that the United States might introduce substantive proposals has often been labeled in Tel Aviv and in Washington as "imposing a solution," which Clinton has vowed never to do.

AMERICA'S DOUBLE STANDARD

No moral person can flinch from condemning the slaughter of innocents in suicide bombings in Israel. The killing of innocents, whether they are the children of West Bank laborers or strolling shoppers in Jerusalem or Tel Aviv, is nothing short of opprobrious. In Washington, however, one hears a selective moral conscience at work that reacts strenuously to violence against Israelis while paying far less attention when the victims are Arabs. In contrast to their forceful denunciation of violence against Israeli civilians, American officials usually memorialize Arab civilians who fall victim to Israeli violence in anodyne statements bemoaning cycles of violence in the Middle East; State Department desk officers refer to such statements as "bollerplate."

The basic problem is that there is now little scope for imagination or balance in United States policy toward the Middle East. Clinton has been disinclined to publicly criticize Israel, since doing so could cause dissension in the American Jewish community and undermine domestic political support for the administration and the Democratic Party. Clinton views a tough-love approach to Israel (as favored by President George Bush and his secretary of state, James Baker) as counterproductive.

The main concern of the man from Arkansas is domestic politics.

Most serious observers in the United States agree that no American administration has been as partial to Israel as Clinton's. Indicative of that partiality is the career of Martin Indyk, a bright and articulate man who has enjoyed remarkable success during Clinton's tenure. An immigrant from Australia, Indyk in 1988 created the Washington Institute for Near East Policy (WINEP), a scion of the American-Israeli Public Affairs Committee (AIPAC), the main pro-Israel lobbying organization in Washington and where Indyk worked at the time.

Under his leadership, WINEP became the locale for discussion of Middle East issues in Washington. Along with a free lunch, WINEP served up an array of views, all more or less friendly to Israel, and enlisted the support of Washington heavyweights

such as former Secretary of State George Shultz and Jeane Kirkpatrick, the barbed-tongued Reaganite who served as United States ambassador to the United Nations. In a few short years the terms of debate for Arab-Israeli policy issues were largely shaped by WINEP; annual WINEP addresses by the serving secretary of state testify to the organization's clout. No other Middle East-oriented center in Washington can claim even remotely comparable influence.

Indyk was part of Clinton's campaign team in 1992. A few days before Clinton was inaugurated in January 1993, Indyk became an American citizen so that he would qualify to take up a position on the National Security Council (NSC), where he became the senior staffer dealing with the Middle East. Indyk's colleagues on the NSC were impressed with his sharp mind, but they would routinely comment that he seemed to view every development through a pro-Israeli lens. One colleague, who admires Indyk personally, noted that during a visit to the White House by the late Yitzhak Rabin, "Martin was ready to open all the drawers and give away the family silver." His presence on the NSC staff created a real credibility problem for United States diplomacy in the Arab world. After two years in the White House, Indyk was appointed ambassador to Israel, where he served until October 1997, when he moved to the State Department as the assistant secretary of state for the Middle East.

Traditionally reserved for a diplomat with extensive experience in the region, the assistant secretary's post is the senior State Department Middle

Israel's strategy has been to keep the United States as far from the negotiating table as possible.

East position. Indyk's appointment was privately criticized by many United States officials, some of whom remain incredulous at the president's decision. Given Indyk's perspectives on the Middle East, few Washington insiders expect any important changes in United States policy toward the region. Of course, Indyk and his State Department colleagues, Dennis Ross (also a WINEP veteran) and Aaron David Miller, want to see the peace process move forward, and they deserve credit for working hard to nudge it in that direction. Netanyahu's hard-line policies have frustrated them. Some insiders claim that Indyk's experience dealing with Israel's Likud has profoundly changed him, and will prompt a tougher, less compliant policy approach to Israel. If so, this would be an important conversion, since Indyk is known to have an excellent rapport with Clinton.

For now, United States policy has been reduced to intermittent tactical reactions to troubling events in the region, as witnessed during the November 1997 Gulf crisis. "New Ideas" and "Initiatives," such as the much-anticipated opening of a badly needed airport and seaport in Gaza, often amount to no more than attempts to implement what Israel has already agreed to do in the Oslo accords.

Statements of principle—for example, that the fate of Jerusalem is unsettled in international law—have disappeared from the Clinton administration's boilerplate. Symbolically, the Old City of Jerusalem is the focus for the concern of Jews, Christians, and Muslims. Yet the Old City accounts for only a tiny fraction of Jerusalem, and less than 2 percent of the city's population. Since 1967 Israel has significantly expanded the municipal boundaries of the city, thereby not only claiming it as the indivisible capital of Israel, but annexing large portions of the occupied West Bank in the process. The Clinton administration and the United States Congress have tacitly endorsed Israel's unilateral redrawing of the municipal borders of Jerusalem, and have also been silent on Israel's recent policies to reduce the Arab population of the city by canceling the residence permits of long-term Palestinian residents. When Israel announced its decision, in January 1997, to build homes for Israelis in Har Homa, to the consternation of the Palestinians, no official voice noted that the settlement lies well outside the traditional municipal boundaries and is actually in the occupied West Bank, although Clinton did remark that the settlement decision "built mistrust."

The administration's passionate preoccupation with anti-Israeli terrorism and its reluctance to seriously challenge Netanyahu's rejection of Israel's obligations under the Oslo agreements, have meant that only if Yasir Arafat is willing and able to become an Israeli satrap is peace possible. If Arafat is to hold hundreds of Islamist militants in preventive detention—as Israel demands—he must have some progress to show for his efforts. While polls show that the overwhelming majority of Palestinians continue to support peace with Israel, support for Arafat and his crew has declined significantly in the absence of a real peace.

When visiting Gaza in October 1997, vehement criticism of the Palestinian Authority could be heard, criticism strikingly similar to that voiced by the Jordanian opposition to King Hussein. Instead of the rewards of peace, Gazans suffer 70 percent unemployment, declining per capita incomes, and political oppression at the hands of Arafat's many

police and paramilitary forces. Arafat's health is also a subject of widespread but quiet concern; physicians surmise that he has had a series of small strokes. Replacing this flawed but uniquely important leader with a man or woman willing and able to negotiate effectively with Israel will be no easy matter.

As we listen to the death rattles of the peace process, it is past time to acknowledge the obvious. Under the leadership of President Clinton, the United States has proved itself incapable of playing the role of honest broker in the difficult negotiations between Israel and the Palestinian Authority. There are two interconnected reasons for this: First, Clinton and his advisers have been unwilling to jeopardize domestic political support by even a hint of pressure on Israel in the negotiations. Second, despite the grossly asymmetrical bargaining relationship between the Israelis and the Palestinians, United States diplomats are constrained to do little more than host Israeli-Palestinian meetings.

American diplomats such as David Satterfield, the State Department desk officer for Arab-Israeli affairs, justify America's anemic diplomacy by emphasizing that the United States is not a party to the conflict. In other words, it is Israel and the Palestinian Authority that must reach agreement. For its part, the United States is ready to provide any assistance both sides request. That this posture puts the weaker side at an extraordinary if not fatal disadvantage is obvious.

*There may still be
time for aggressive
steps to resuscitate
the dying peace
process.*

The Clinton team's shadow presence in the Israeli-Palestinian negotiations is in marked contrast to the strenuous mediation of President Jimmy Carter at Camp David, and the outright arm-twisting of George Bush and James Baker in the run-up to the Madrid peace conference of 1991, which launched the present peace process. President Bush, in 1991, refused to underwrite \$10 billion in loan guarantees for the government of Prime Minister Yitzhak Shamir, who had refused to rein in the illegal construction of settlements on the West Bank. It is instructive to note that Bush's stance was overwhelmingly supported by the American public, and that Shamir's bungling of Israeli-United States relations contributed to Likud's defeat by Rabin's Labor Party in 1992.

Bush articulated a clear strategic position and couched his decision as an essential step in support of the peace process. Clinton has failed to do so. Instead, his administration occasionally expresses mild chagrin over Israel's actions. Characteristically, there is little in the way of follow-through. Of course, unbending United States support for Israel is popular on Capitol Hill, where pro-Israel lobbying groups such as AIPAC freely throw their weight around. Like parochially minded members of Congress, the Clinton White House has no appetite for bucking Israel's hard-line supporters. This is ironic, given the many friends of Israel who are committed to fostering the peace process and who oppose many of the policies of Netanyahu and the Israeli right wing.

THE PRESSURE FOR ACTION

By the summer of 1997, the American Jewish community had become increasingly discomfited by Netanyahu's obstructionist approach to the peace process, as well as his coalition's support for measures in the Knesset that would resolve Israel's perennial "Who is a Jew?" debate in favor of the Orthodox rabbinate. Since over 80 percent of America's Jews follow Reform or Conservative traditions, there was widespread anger and concern over their religious disenfranchisement. In private letters to President Clinton (the author has been shown some of these letters by the writers), prominent American Jews have urged a more active United States role in the negotiations, as well as the appointment of a highly respected diplomat—Ambassador Thomas Pickering, the number three official in the State Department, was frequently mentioned—to reinvigorate Israeli-Palestinian negotiations.

One representative poll conducted in October by the pro-peace Israel Policy Forum found broad sup-

port among American Jews for the United States taking on the role of honest broker. The poll also showed that Clinton was far more popular with American Jewry than Netanyahu. In his reelection in 1996, Clinton won 83 percent of the Jewish vote, suggesting that he enjoys a wide latitude of trust.

An unpublicized meeting between Clinton, Vice President Al Gore, Israeli President Ezer Weizman, and key leaders of American Jewish organizations was held at the White House on October 6, 1997. Mel Salberg, chairman of the Conference of Presidents of Major American Jewish Organizations, told Clinton that "a very large majority of Jews, perhaps 85 percent, support the peace process. We stand behind you to create an environment that will allow the parties to make peace."

Weizman, while cautioning Clinton to avoid the "Bush-Baker heavy hand," observed that "the U.S. should not push just one side. It has its own interests in the Middle East too." The Israeli president's message could not have been clearer, and it was consistent with the reaction to Albright's major policy speech. Mainstream American Jewish leaders responded enthusiastically when the secretary of state linked demands for a Palestinian Authority crackdown on terrorism with a halt to "provocative" acts by Israel. Buoyed by the domestic pressure, Albright and National Security Adviser Sandy Berger have argued for a less passive United States role in the peace process. Respected elder statesmen such as former National Security Adviser Zbigniew Brzezinski have seconded this advice, although Vice President Gore, with his eyes on the 2000 national elections, has continued to urge uncritical support for Israel.

To his credit, Clinton has been moved by the advice of Albright and Berger. Thus, during Netanyahu's November 1997 visit to the United States, "scheduling problems" prevented an appointment with Clinton, an unprecedented snub. Earlier, in September, Albright called for a "time-out on actions that make it more difficult to have successful negotiations," a diplomatic way of asking for a halt to the building of settlements, including the Har Homa development. To date, Israel continues to defend the "natural growth" of settlements and has refused to agree to a time-out.

On November 30, the Israeli cabinet approved in principle the combining of the three-stage withdrawal stipulated in the Oslo accords into one stage that would be completed within five months. While the precise land area was not specified, the Israeli press cited informed sources as saying that between

6 and 8 percent of the West Bank would be involved, or roughly half of what the United States was urging and about one-quarter of what the Palestinians demanded. Netanyahu said the withdrawal would be linked to continuing cooperation from the Palestinian Authority in fighting terrorism and the opening of final status negotiations, which will address the most contentious issues, including the status of Jerusalem and the question of refugees.

Palestinian officials dismissed the offer as a trial balloon. In Israel, *Ma'ariv*, the pro-Labor Party newspaper, argued editorially that the "intention is to destroy the Oslo agreement," and the respected independent newspaper *Ha'aretz* claimed that the goal is "reducing the Oslo agreements to rubble and paving the way for a total severing of ties with the Palestinians."

The big question is whether Clinton will have the political fortitude to ensure that the obligations of the Oslo accords are met by both sides. Recent events have shown that domestic support for Israel is not unconditional, not even among Israel's strongest supporters or in the United States Congress. In October, when Israel refused to extradite an accused murderer to Maryland for trial on the grounds that the suspect was an Israeli citizen and therefore could not be extradited for a capital crime, members of Congress were furious and threatened to cut the \$3 billion in annual aid that Israel receives. The Israeli government switched course and decided that the suspect's claim of citizenship was faulty and that he could be extradited after the appeal procedure was exhausted. In this instance, there is no mistaking the fact that aid can be an effective means of leverage.

If the Clinton administration wants to see constructive movement in the peace process, four things must happen.

First, the United States must play a more assertive and more impartial role in negotiations, even to the point of specifying its vision of a settle-

ment. This necessarily implies security for both parties, and addressing Palestinian aspirations for an independent state.

Second, the president must articulate a clear statement of United States policy based on an elaboration of United States interests in the Middle East. Clinton must take his case to the public, where he is likely to find widespread support for a fair and balanced policy.

Third, the United States must demand that Israel as well as the Palestinian Authority meet their obligations under Oslo. This means that Arafat must address the security concerns of Israel with a 100 percent effort and that Israel must demonstrate its commitment to withdraw its forces from significant portions of the West Bank. Israeli agreement to the opening of the Palestinian seaport and airport in Gaza, and the opening of safe passage corridors between Gaza and the West Bank—measures that are specified in the Oslo accords—would be meaningful signals of good intentions.

Fourth, decisive steps must be taken to improve the depressing economic conditions under which many Palestinians live. Peace must bring some palpable benefits to a people whose per capita income is one-twentieth Israel's per capita income of \$16,000 a year. The Palestinians will evince little appetite for tough concessions that benefit Israel's security but leave them mired in lives of misery.

By any historical standard, the resolution of the Arab-Israeli conflict would stand as a great accomplishment, but the Clinton administration is in danger of falling well short of resolving it. Most distressing, through its diffident diplomacy the United States has conceded the initiative to the beligerents, who may be imaginative, but not necessarily in peacemaking. Many senior officials are skeptical that Clinton will rise to the challenge, but there may still be time for aggressive steps to resuscitate the dying peace process. Otherwise, there will be a requiem. ■

"Why has a peace process, which was born amid so much euphoria and celebrated as a major achievement for United States diplomacy, produced so much conflict yet so little peace?"

Oslo's Muddled Peace

NASEER ARURI

The reluctant handshake between Palestine Liberation Organization (PLO) chairman Yasir Arafat and Israeli Prime Minister Yitzhak Rabin that marked the signing of the Declaration of Principles (DOP) and the Mutual Recognition statement on September 13, 1993, was seen as a sign of a new dawn, the start of a new chapter that would enunciate a historic change and convert a perpetual conflict to peaceful coexistence.

Nearly five years later, peace has become so elusive that significant voices in the United States, the declared sponsor, are openly admitting a near failure. The remarks made in September 1997 by the outgoing American ambassador to Israel, Martin Indyk, and by Secretary of State Madeleine Albright during her first visit to the area that same month underscore the diplomatic paralysis and the grim prospects. The negotiations have been at a virtual standstill since the spring of 1997, with each party claiming that the other has failed to meet commitments under the 1993 agreements. Periodic revision of these agreements has become virtually routine since their signing. Each suspension of the talks has led to a resumption, which in turn has produced a new and more complex agreement. The net result has been a multiplication of the problems arising from the influx of new agreements and the inevitable emergence of new conflicts over interpretations.

Why has a peace process, which was born amid so much euphoria and celebrated as a major achievement for United States diplomacy, produced so much conflict yet so little peace? The answer must be found in the circumstances in which this peace was born.

FROM MADRID. . .

The strategic imperatives for a negotiated settlement, largely on United States terms and under United States auspices, were created in 1991 by the effective collapse of the Soviet Union and the destruction of Iraq. The Soviet Union was transformed from chief diplomatic backer and arms supplier of the Arab states to United States appendage in the "peace process." Iraq was reduced from the champion of a strategic balance with Israel to an impotent nation preoccupied with the preservation of its sovereignty. For the United States, this was the first "opportunity" to reshape the strategic balance in the Middle East without the countervailing influence of the Soviet Union and in the absence of a single Arab power that professed responsibility for mutual deterrence vis-à-vis Israel. For Israel, this was the first time since the 1979 peace treaty with Egypt that a number of Arab states seemed ready to conclude peace with it outside the context of an international peace conference and in direct bilateral negotiations, as it had long insisted. The Persian Gulf War had demolished the official Arab consensus on Palestine, eroded Arab solidarity, and exposed regime insecurity in the region.

The parties to the conflict, however, did not share Washington's diagnosis that the circumstances were propitious for peaceful relations; most of the concerned Arab states opted for negotiations despite the adverse conditions in order not to displease Washington.

These negotiations, which opened in Madrid in October 1991, scheduled the implementation of Palestinian self-governance one year from the start of the conference, that is, October 1992. This did not happen because the Madrid process seemed to go nowhere after 11 rounds of talks between Palestinian and Israeli delegations in Washington, Rome, and Moscow. The Palestinians had assumed that their rights, enshrined in UN resolutions, would

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somehow supersede the essence of Madrid. They took it for granted that the Israeli occupation is a self-evident phenomenon that would be reversed by the implementation of UN Security Council Resolution 242. Similarly, the Palestinians saw the settlements in occupied territories as illegal and invoked Security Council Resolution 682, which declared unanimously in 1991 that the fourth Geneva Convention Relative to the Protection of Civilians in Time of War applied to the West Bank and Gaza. Moreover, the Palestinian delegation insisted on linking its acceptance of the concept of an interim period, preceding final status negotiations, to an Israeli decision to come to terms with Israel's legal status in the West Bank and Gaza.

To their dismay, the Palestinians discovered that their jurisprudence of the Palestine question, based largely on international law, was not the same jurisprudence that Israel was willing to apply. Nor was it the same jurisprudence that governed the Madrid process. The deliberate ambiguity of America's diplomacy had, in effect, suspended these precepts of international law. Consequently, all the Palestinians could do was struggle to prove that they have rights.

Unlike in South Africa, where the two parties had agreed to dismantle apartheid and negotiate the procedures to effect majority rule, there was no agreement to dismantle the occupation, which for the Israelis was nonexistent, and for the Palestinians was the principal issue. Hence, the Madrid process had reached a dead end by the summer of 1993, after more than 22 months of fruitless encounters.

... TO OSLO

The startling reports circulating in late August 1993 that the crippling impasse would soon be replaced by an agreement between Israel and the PLO (not the proxy Palestinian delegation that had been the Israelis' interlocutor in the Madrid process) raised the question of: Why then? Why Oslo? And why the sudden change?

The real catalyst that hastened the ongoing secret affair in Oslo, involving a few trusted aids of Rabin and Arafat, was the crucial decision by the Clinton administration to break the impasse with so-called bridging measures. A proposed Declaration of Principles was announced by Secretary of State Warren Christopher on June 30, 1993. Three elements in that declaration were crucial: first, the implication that the West Bank and Gaza are "disputed" rather than occupied territory, thus implying that Israel

has an equal right to lay claims to the land; second, the conspicuous absence of any reference to the exchange of land for peace; and third, the requirement that the Palestinians agree, beforehand, that all matters relating to sovereignty are outside the scope of the negotiations for the interim phase—hence discussion of Jerusalem, the still expanding settlements, and the land issues is to be deferred for several years.

This manifest public departure in United States policy was the real context for the PLO-Israeli agreement at Oslo. Moreover, after the Oslo agreement was concluded in September 1993, disagreements over its meaning and implications began to surface. Four major factors have rendered the Oslo accords vulnerable to disagreements, causing new stalemates and creating new agreements.

The first is the issue of security—internal and external—and its relationship to occupation. For the Palestinians, security would be assured by the phased dismantling of the occupation, the exchange of land for peace, and eventual implementation of national and human rights. For Israel, occupation was a nonissue and security was of the utmost importance. The external dimension of security would enable Israel to proceed in the manner of a *de facto* sovereign, responsible for all points of exit and entry. The internal dimension, meanwhile, would shift daily policing from the Israeli army to Arafat's police. Prime Minister Rabin was candid about the utility of the new arrangement. In an interview with the Israeli daily newspaper *Yediot Aharonot* on September 7, 1993, Rabin put it succinctly: "I prefer the Palestinians to cope with the problem of enforcing order in the Gaza [Strip]. The Palestinians will be better at it than we were because they will allow no appeals to the Supreme Court. . . . They will rule there by their own methods, freeing—and this is most important—Israeli army soldiers from having to do what they will do."

Clearly, Rabin's concept of security would enable Israel to keep the occupation intact, reorganize it, and repackage it under a new label.

Second, Israel recognized, in the preamble to the declaration, "mutual legitimate and political rights," but not the national rights of the Palestinians or their right of return enshrined in UN resolutions. Also, in the exchange of letters, Israel recognized the PLO but qualified that recognition by limiting the context to the task of representing only to those Palestinians who live in the West Bank and Gaza in talks to be held within the framework of the Madrid process.

The PLO, on the other hand, granted full unrestricted recognition to the state of Israel. This recognition was not contingent on ending the occupation or allowing the Palestinians to exercise sovereign rights in the territories. The so-called mutual recognition was thus asymmetrical and nonreciprocal. The agreement was, in effect, predicated on the assumption that the Palestinians were the party that had done wrong and must apologize for resistance to a military occupation, effectively construed as acts of random violence.

The third issue, withdrawal, is referred to in the declaration as withdrawal from the Gaza Strip and the West Bank city of Jericho, but not from the West Bank, where only redeployment from population centers would take place. Moreover, this partial and limited withdrawal would not abolish the military government, which, because Israel did not acknowledge its status as occupier, has meant that it would remain the de facto sovereign under international law even in Jericho and Gaza. It also meant that the code of military orders, which constitutes the basis for the legal systems in the West Bank and Gaza, would remain in force except in six spheres: education, culture, health, social welfare, direct taxation, and tourism. The fine distinction between withdrawal and redeployment was emphasized by Israeli Chief of Staff Mordechai Gur, who asserted in an interview in the September 3, 1993, *New York Times* that "this is redeployment, not withdrawal. Anything that happens, the IDF [Israeli Defense Forces] will be there."

The fourth crucial issue is the source of authority, which remained vested in the occupation regime. The Palestinian parliament was granted quasi-legislative power only over the six spheres mentioned earlier. This excludes the Israeli settlements and the network of roads connecting these settlements with each other and with Israel proper, Jerusalem, and military locations. Moreover, the legislative power granted to the Palestinian parliament was made subject to a review process in which Israel has an effective veto. Israel was also granted additional authority in the realm of what is generally known in constitutional language as "inherent" or "reserved powers."

These four factors have contributed to the inevitable fragility of all of the succeeding agreements. The imbalance of power, which produced highly unbalanced agreements, has left Israel in the

driver's seat. The lack of consultative decision making by the Palestinian Authority has predictably led to opposition by disgruntled constituencies, some of which have expressed their opposition by resorting to violence, including suicide bombing, thereby setting the stage for the next impasse.

A brief account of the diplomatic action, covering the period from the aftermath of the "historic handshake" until the present, will illuminate this pattern and explicate the serious flaws of the DOP and its corollaries, which have made the entire process an area of conflict rather than an instrument of resolution.

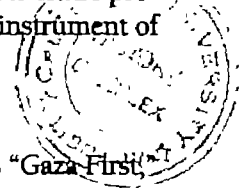
AND FROM OSLO I TO OSLO II

The DOP (Oslo I) was also known as "Gaza First," implying that Israeli troop redeployment—not withdrawal—would begin in Gaza and extend to the West Bank at a later stage. In 1994, however, the two parties signed three Cairo agreements and the so-called Early Empowerment agreement, all of which had been prompted by deadlocks over control of borders (the security issue) and the source of authority. One of these was resolved, for the time being, on February 9, 1994, in Cairo I after Rabin's insistence that Article VIII of the DOP had given Israel responsibility for "defending against external threats, as well as... for overall security of Israelis."

Rabin's security reasoning in Cairo I was later used, together with another provision of the DOP (the division into two phases: interim and final status), to gain virtual PLO acquiescence to Israel's position on the settlements and the issue of jurisdiction. Rabin deployed this provision to confirm Israeli responsibility for overall security even in Jericho and Gaza in the interim phase in which Arafat had set up his Palestinian Authority. That was the main outcome of a second Cairo agreement on April 4, 1994, known as Cairo II.

The same security argument was applied by Israel in 1994 to establish a precedent regarding settlements. Sixteen Gaza settlements with 4,000 residents (.25 percent of the population), occupying 18 square kilometers were given an additional 22 square kilometers of land to provide them with a "security zone" and a measure of contiguity. Moreover, Israel used Article VII (5) of the DOP to argue that settlements constituted an internal Israeli matter.

The imbalance of power, which produced highly unbalanced agreements, has left Israel in the driver's seat.



Settlements were also a major stumbling block to extending the Gaza-Jericho agreement to the West Bank, as provided for in the DOP, because of Israel's reluctance to jeopardize its numerous settlements there. Having scored a "legal" victory regarding the status of settlements in the Cairo agreements, Israel balked on further deployment without ensuring the security of these settlements, whose inhabitants (150,000 in the West Bank and another 150,000 in West Bank villages adjacent to Jerusalem) far exceeded the 4,000 Gaza settlers. The result was a new stalemate, which required a new version of the DOP, known as the interim agreement, or Oslo II.

A major factor in that stalemate was Israel's insistence that Articles V and VI of the DOP made a distinction between Gaza and Jericho, where there is a requirement to "withdraw" Israeli forces, and the West Bank, where there is a requirement only to "redeploy" from certain areas and not from the entire West Bank. A legal facade was also built on the omission of "the" from all references to the West Bank, using instead the phrase "West Bank." This formulation by the Israeli authors of the DOP was clearly intended to leave open the possibility that there will be areas of the West Bank, in addition to those connected with the permanent status issues, that will not fall under the jurisdiction of the Palestinian Authority.

This same determination by Israel to annex large parts of the West Bank was also the basis for the division of the West Bank in the Oslo II interim agreement of September 1995 into Areas A, B, and C. Accordingly, only the cities in the West Bank (Area A) saw a transfer of civil authority as Arafat's police replaced Israeli troops and a Palestinian bureaucracy inherited the Israeli "civil administration." In these cities, which account for 26 percent of the population of the occupied territories, the Palestinian Authority has full responsibility for internal security, public order, and civil affairs. An exception was made for Hebron, the only Palestinian city having an Israeli settlement in the downtown area. Hebron's status was deferred, along with that of 300 villages designated as Area B, and about 70 percent of the West Bank comprising public land, settlements, and Israeli army camps designated as Area C and placed under exclusive Israeli control.

In Area B, which comprises 70 percent of the West Bank population, the Palestinian Authority has responsibility for maintaining public order, while Israel retains overriding security responsibility to protect the settlements. In Area C, Israel retains full

responsibility for public order, security, and civil affairs related to territory (including planning, zoning, archaeology). The Palestinian Authority has civil responsibility with regard to other civil spheres.

This hierarchy of functions and responsibilities made it unlikely that the arrangements for Gaza and Jericho would be duplicated in the West Bank. Unlike "withdrawal" from Gaza and Jericho, the extent of Israeli redeployments in Areas B and C was left open-ended, but the timing was defined: 18 months after the convening of the Palestinian parliament, or September 1997. As of early December 1997, this had not taken place since diplomatic contacts had been suspended over settlement building and responsibility for suicide bombings.

Redeployment from Area A, in accordance with Oslo II, was carried out in the winter of 1996, leaving Hebron intact. Now after one full year, during which Israel failed to redeploy any troops from any section of Area B or from Hebron, and while Area C remained under total Israeli control, an agreement was finally reached in January 1997 that is tantamount to an Oslo III.

WHY OSLO III?

It is worth recalling that Israeli Prime Minister Shimon Peres had used the spate of suicide bombings during the winter of 1996 to delay the three-stage redeployment that was to have taken place between March 1996 and September 1997 as required by Oslo II. In June 1996, Prime Minister Benjamin Netanyahu came to office with reservations about the entire "peace process" and a declared intent to renegotiate the Oslo agreements in line with his campaign slogan—"peace with security," a euphemism for sweeping annexation.

When pressed for a deadline for completion of the redeployment, Netanyahu offered the end of 1999. Jordan and the United States persuaded him to make it mid-1998, which would still give him an additional year over the agreed deadline. Thus, the only concessions that Netanyahu made were to scale down his expanding unilateral demands, and to make a partial redeployment from Hebron. In return, Arafat agreed to another list of concessions, some of which inflicted major damage to a position already battered by Oslo I and Oslo II.

Netanyahu told the Knesset on January 16, 1997, that the Hebron agreement was a vast improvement over Oslo II. Two components of Israel's negotiating strategy (security and reciprocity) received yet broader construction, bringing the Oslo process even closer to the Israeli position.

Netanyahu's triumph in the Hebron agreement was largely related to Arafat's acquiescence to the American decision to cede to Israel the right to determine the extent of territory and number of forces that would be affected by the required redeployment in Area B during the interim phase, which means that Israel is no longer committed to withdraw troops from occupied Arab territories within the meaning of UN Resolution 242.

The Clinton administration has effectively enunciated a new policy that considers Israel's territorial needs and security requirements to be intertwined and their relationship determined by Israel. It has thus endowed Israel with the express power to redeploy in accordance with its security requirements as it "identifies" them itself during the interim phase.

The second major gain for Israel in the Hebron agreement ("Oslo III") is what the United States refers to as "reciprocity," a term introduced into the lexicon of Mideast diplomacy by Netanyahu. Since he became prime minister, Netanyahu has accused Arafat of failing to live up to his commitments, thus justifying his own refusal to implement the terms of an agreement that he had opposed. The reciprocity obligation that is part of "Oslo III" places the onus on the Palestinian Authority, which must convince Israel that it is "capable and willing to comply with its security responsibilities" before Israel is "obliged to transfer additional areas of the West Bank to Palestinian jurisdiction."

There can be no doubt, of course, about who will be authorized to determine compliance. Whatever Netanyahu pledged to do will in the final analysis be contingent on Arafat's fulfillment of new and old conditions that could render Palestinian expectations once more superfluous. Who is to say whether Arafat has lived up to his commitments other than Israel? And who will referee the inevitable differences between Arafat and Israel? Moreover, the reciprocity clause in the latest agreement has a new list of "Palestinian responsibilities" that will have to be met before Israel can be expected to fulfill its open-ended obligations, including an end to all resistance activities ranging from terror to political commentary (described as "incitement and hostile propaganda") and the apprehension, prosecution, and transfer to Israel of all suspects.

WILL THERE BE A FINAL SETTLEMENT?

Diplomatic trouble emerged almost immediately after the Hebron agreement, demonstrating once

again that the new agreements do not necessarily repair the situation and might create additional problems.

Two incidents in particular ignited the latest crises, which created the diplomatic paralysis during most of 1997. The first was Israel's announcement in March that it planned to construct a new settlement on the site of Jabal-Abu Ghunaym (known as Har Homa in Israel), south of East Jerusalem. Second, two suicide bombings occurring in West Jerusalem on July 30 and September 4. Palestinian suspension of the talks was followed by Israeli suspension. The major issues on the Palestinian side were settlements; on the Israeli side, security and the obligation to meet commitments.

But behind these issues stands a larger and more substantive question. Will the two parties ever reach closure? If so, on what terms, and what would be the likely outcome? And how would the outcome be affected by who governs in Israel?

The conventional wisdom that Netanyahu has derailed Rabin's peace train is contradicted by the current realities of Israeli politics: irrespective of party label, Israel excludes Palestinian sovereignty, removing settlements, negotiating Jerusalem's status, repatriating the Palestinian refugees, and dismantling the occupation, thereby upholding the status quo.

Netanyahu's policies, therefore, do not repudiate his predecessors' "peace," but only the process. Whereas Rabin and Peres succeeded in enlisting the meaningful participation of their adversaries in the new governance structure, Netanyahu, who must cater to the ideological right wing and the fundamentalist sector, has been less sensitive to Arafat's lust for the trappings of statehood. The difference between the two governments relates more to public relations than to substance. Netanyahu's approach is to be up-front and abrasive rather than defensive and wary. He does not feel he has to disguise or finesse Israeli colonization or deny that the interim phase and the final settlement are one and the same. Hence his proudly declared nonnegotiability of virtually all the final status issues.

At present, Netanyahu's best offer to Arafat is a redeployment from between 6 and 8 percent of the West Bank on the condition that Arafat agree to move directly to negotiations on a final settlement. This would fall short of what the Clinton administration considers a "significant and credible" redeployment, and would also enable Netanyahu to escape the obligation to make three further re-

*Will the
two parties
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deployments before the final settlement. For its part, the Palestinian Authority has been insisting that each further redeployment constitute about 30 percent of the remaining land in the West Bank under Israel's control. All this does not augur well for the prospects of a satisfactory settlement, and could increase the likelihood of another collapse and thus another context for yet a new agreement with more pressure for additional Palestinian concessions and more conflict over interpretation.

After the inception of the process at Madrid, it became clear that regional and global imperatives had created a convergence of interests between Israel and the PLO. Israel's "security" requirements would have to be reconciled with its quest for international legitimacy, and both of these would have to be matched against Arafat's need for some kind of a state. A formula for coexistence based on these considerations emerged in the DOP in September 1993 and was further developed in Oslo II two years later. Israel under Rabin proceeded to ensure its requirements through the Talmudic phraseology of the Oslo documents, which were prepared solely by the legal staff of its foreign ministry. Arafat, on the other hand, who had effectively ceded UN-guaranteed Palestinian rights, was left without legal recourse similar to what Rabin had in his DOP.

Indeed, Arafat's only recourse, undertaken as a mere gamble, was the potential for pressure by

Washington, Cairo, and the international community. The gross imbalance enabled the Labor government to keep Arafat on a short leash whereby concession after concession could be extracted in return for an eventual formula of coexistence that would grant him an entity below a state in which he could declare "independence."

Herein lies the real difference between the two Israeli governments: Labor was willing to allow Arafat to take home something he could call a state. The fact that the settlements and Area C (70 percent of the West Bank) would firmly negate statehood was to be overlooked. In contrast, the government of Benjamin Netanyahu seems unwilling to accommodate even the necessary diplomatic ambiguities in order to give Arafat some trappings to take home.

Given that neither the United Nations nor the European Union will be allowed to play a substantive role in Middle East diplomacy in the foreseeable future, the existing regional balance of power and the present disarray in the Arab world are likely to leave Washington solely in charge of this "peace process." Meanwhile, any outcome that would constitute a serious departure from the status quo is likely to be impeded by a strong Israeli consensus on the nature of a settlement, and a United States inclination not to challenge that consensus. ■

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Authoritarianism with a Palestinian Face

GLENN E. ROBINSON

Five years after the foundations for self-government were put in place and two years after parliamentary elections, the widespread hopes for democracy in Palestine have not been realized. Indeed, the governing Palestinian Authority (PA) in the West Bank and Gaza Strip is characterized by a personalized, authoritarian politics. The evidence is abundant. Both local and international human rights groups have rebuked the authority for abuses committed by a plethora of autonomous security and police forces. All important political decisions are taken by President Yasir Arafat alone, around whom a cult of personality has formed. The democratically elected parliament, the Palestinian Legislative Council, has been so marginalized by Arafat and his cabinet that it has become little more than a debating society, making a mockery of its role as the defender of Palestinian democracy. And the once vibrant Palestinian civil society has been virtually under siege by a Palestinian government.

For some observers there is nothing surprising about the creation of another Arab dictatorship. Why should Palestine and the Palestinian Authority be any different from so many other countries in the Arab world? Such arguments, generally focusing on

an essentialist, antidemocratic understanding of Arab-Islamic political culture, miss the point of the political—not cultural—origins of PA authoritarianism. Palestine had many of the attributes, or precursors, of democratic rule: a dynamic and pluralistic civil society that had acted as a protostate under Israeli military occupation; a well-educated and professional middle class; and, through the Palestine Liberation Organization (PLO), a long-held commitment to democratic rule in a liberated Palestine.¹

Another common explanation for PA authoritarianism is based on the containment of Hamas, the fundamentalist Islamist group. Because, it is argued, Hamas extremists will resort to any method, including terrorism, to undermine peace with Israel, the PA has to be ruthless in crushing Hamas—including employing undemocratic measures—in order to maintain the peace. This argument not only avoids discussion as to why Hamas (and others) oppose the Oslo process, but misses the point of the real reasons for PA authoritarianism. Hamas and the PA have a very complex and evolving relationship, but that relationship is not central to understanding PA authoritarianism.

To understand the authoritarian nature of the PA, one must examine the internal logic of its consolidation of power in the West Bank and Gaza Strip since the signing of the 1993 Israeli-Palestinian Oslo accords. Oslo brought to power in Palestine an exiled PLO elite that had many familial and emotional ties to the Palestinian population in the West Bank and Gaza, but little practical political experience. Personalized authoritarianism is the tool that the PA—at base, an organization of the "outside" political elite—has used to consolidate its power over a society and an "inside" counterelite that it does not fully trust or control.

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¹The PLO was established in 1964 and was based in Jordan before being expelled to Lebanon during the Jordanian civil war of 1970–1971. The 1982 Israeli invasion of Lebanon led to the PLO's removal to Tunisia, where it was still located at the time of the Oslo accords.

A CIVIL SOCIETY AT HAND. . .

Over the past 20 years, Palestinian civil society has been perhaps the most active and vibrant in the Arab world. Ironically, it owes a great deal of its growth to the unintended consequences of four Israeli policies. First, following the 1967 war in which Israel captured the West Bank and Gaza Strip (along with the Golan Heights and Sinai Peninsula) from its Arab neighbors, Israel opened its labor markets to Palestinians from the occupied territories. Employing Palestinians (primarily in the agricultural and construction sectors) served both communities. For Israel, the plentiful supply of cheap labor helped fuel an economic boom; for Palestinians, even the discriminatory wage rates provided an income well above what could be made at home. Within a few short years, 40 percent of the Palestinian labor force was employed in Israel; the Gaza Strip became completely dependent on jobs in Israel to sustain its population.

Opening Israel's labor market to the lower rungs of Palestinian society had profound social and political consequences. The most immediate and important effect was to disrupt and even destroy the traditional patron-client networks that linked the urban-based Palestinian landed elite to rural communities and, to a lesser degree, refugee camps. It also directly exposed working-class Palestinians to the everyday humiliations of life as a conquered people. In short, Israel's labor policies had the unintended consequence of making peasants into Palestinians. These Palestinians provided fertile ground for recruitment into the mobilization efforts that began in the late 1970s by an emergent civil society.

The second Israeli policy that helped spur the development of a Palestinian civil society was the decision to allow Palestinians to open universities in the West Bank and Gaza Strip. The first to open, in 1972, was Birzeit University, a transformed teachers college. It was followed in the next 14 years by universities in Bethlehem, Hebron, Nablus, Jerusalem, and Gaza, as well as by numerous community colleges. Before 1972, only the sons of the local elite could afford a university education, either in the Arab world or abroad; by the fall of 1987, nearly 20,000 Palestinians were enrolled in Palestinian universities and colleges in the West Bank and Gaza.

The opening of Palestinian universities created a large local elite distinct from traditional Palestinian landowners. This new elite based its position on educational achievement and broadly reflected the society from which it emerged: 70 percent of Palestinian university students came from refugee camps,

villages, and small towns. It was this new elite—educated, nonlanded, and less urban—that built the institutions of civil society in the 1980s and subtly mobilized disaffected Palestinians against both the Israeli military occupation and the old Palestinian landowning elite; it was this elite that sustained the Palestinian intifada, or uprising, of 1987–1993; and it is to marginalize this elite—primarily made up of “inside” PLO cadres—that Arafat's PA has resorted to authoritarian politics.

The eclipse of the Palestinian landowning elite was helped along directly by a third Israeli policy: land confiscation. Begun under Labor Party rule immediately following the 1967 war, land confiscation accelerated dramatically when the conservative Likud Party came to power in 1977. Confiscations took many forms, from direct and “legal” expropriation to the use of land for “security” reasons. A common ploy was to declare lands state lands unless proved otherwise. The burden of proof was not on the state to show that these were indeed state lands, but on Palestinians to prove private ownership. Most Jewish settlements in the occupied territories today (and they are specifically for use by Jews, not Israelis *per se*) are built on lands taken for security purposes or declared state lands by Israel. By 1993 and the signing of the Oslo accords, two-thirds of the West Bank and half the Gaza Strip had been confiscated from or otherwise made off-limits to Palestinians.

The biggest political loser in the land confiscations was the Palestinian landowning elite, which sometimes lost land directly and, in any case, showed that it could no longer control or influence the fate of Palestinian lands. Unable to control the land—a key source of power and patronage—the landowning elite was further marginalized. As a result, Israel lost the key element for social control in the West Bank and Gaza, since this elite historically had acted as the intermediary between the Israeli state and Palestinian society.

Thus, the origins of Palestinian civil society were largely a by-product of the rise of a new elite through Palestinian universities, the eclipse of the old elite through land confiscation, and the creation, through Israel's labor policies, of a Palestinian population open to new forms of social organization and mobilization. These three elements combined to make possible the building of new social institutions upon which to base organized economic, social, and (ultimately) political activity.

A fourth Israeli policy pushed the nascent movement to build institutions of civil society to the fore-

front of Palestinian activity: the 1982 invasion of Lebanon. Israel invaded in order to destroy the PLO as a political—not military—force and thereby create the circumstances for permanent Israeli domination over the West Bank. The invasion instead energized the local PLO cadres—members of the new elite—and pushed the mobilization campaign to try to prevent the permanent absorption of the occupied territories by Israel.

The mobilization campaign, which consisted primarily of building institutions of civil society and recruiting like-minded members into them, affected all segments of Palestinian society. The defining feature of the campaign was the competition between the four major factions within the PLO: Fatah, the Palestine Communist Party, the Popular Front for the Liberation of Palestine, and the Democratic Front for the Liberation of Palestine. During the late 1970s and early 1980s, each faction created its own federation of labor unions to organize workers; women's committee to integrate women into the national struggle; agricultural relief committee to increase agricultural production and minimize land confiscations (fallow lands were especially vulnerable to confiscation); medical relief committee to improve health standards through primary health care; student bloc to organize university students politically; and voluntary works program to cement ties between rural Palestinians and other Palestinians (and to bring rural Palestinians into the nationalist fold).

Throughout the 1980s, and especially during the intifada, the individuals and institutions active in civil society formed what can only be called a proto-state, organizing its members and providing an (incomplete) network of social services. Authority in this nascent state structure had three defining characteristics.

First, authority devolved to the lower strata of society; this reflected the changing structure of Palestinian society and made Israeli attempts to capture or disrupt this authority more difficult. Devolved authority points up the grassroots nature of the politics of the new elite.

Second, authority was institutionally based and did not reside in individual personalities. Institutional politics and authority distinguished the new elite from the old landowning families, who relied on personal ties to govern.

Third, authority was pluralistic, and even democratic, in its decision making. Given the grassroots

nature of authority in the new structure, the new elite had little choice but to incorporate multiple voices into the making and execution of decisions.

The Oslo accords were designed—on paper at any rate—to validate democratic rule in Palestine. In particular, under Oslo the Legislative Council is supposed to be the single most important decision-making body in Palestine. Had this actually happened, there would be democracy in Palestine today, based on a healthy relationship between a freely elected parliament and a robust civil society.

...BUT RESORTING TO AUTHORITARIANISM

PA authoritarianism is bolstered at the most basic level by approximately nine different police and security organizations employing more than 40,000 personnel for a total population of 2 million; this is one of the highest such ratios in the world. Only the regular police force is legal under the Oslo

accords; all the other forces have been created outside the Oslo framework for reasons of internal social control. There is no formal hierarchy or reporting system connecting these forces. Instead, each reports directly to Arafat, lessening the possibility of the formation of a "coup coalition." The mission of at least one security force is to report to Arafat on the activities of the other security forces—guarding the guards, as it were.

The disturbing results of the activities of these nine or so police and security forces (since they are illegal to begin with, the exact number of separate security forces is not disclosed) have been well documented by numerous human rights groups, both foreign and Palestinian. Sadly, the Palestinians have adopted a number of techniques learned originally from their Israeli occupiers, including arresting individuals without charge and detaining them without trial under the heading of "administrative detention."

More significant in the long term than the common violations of human rights is the manner in which the PA has attacked institutional life in the West Bank and Gaza, and the way in which power and politics have become personalized. The anti-institutional nature of the PA can be seen in its behavior toward both governmental and non-governmental organizations (NGOs).

NGOs, the backbone of Palestinian civil society and the institutional expression of the new elite, have been especially hard hit by the PA. Even though NGOs provided crucial services to a Pales-

The Oslo accords were designed—on paper at any rate—to validate democratic rule in Palestine.

tinian population under siege during the intifada, the PA has implemented a two-pronged attack on their very existence. The cruder prong has been the PA's policy of intimidating and harassing NGO personnel. Leaders have been arrested, detained, or pointedly questioned by security and police forces about the activities of their NGOs and their personal politics. This last point is important because many of the NGOs that are the most efficient providers of quality social services are affiliated with PLO factions that were opposed to or ambivalent about the Oslo agreements.

A second, more effective means of undermining Palestinian NGOs has been to control their resources. Many NGOs depend on support from international donors, both private and public. The PA has consistently lobbied foreign donors to direct all monies straight to the PA, which will then distribute them as it sees fit. While the PA has not ended direct external contributions to Palestinian NGOs, it has been able to significantly reduce them. Again, those NGOs affiliated with "opposition" political factions have been particularly hard hit.

While generally adopting indirect methods to attack NGO finances, the PA has also used more straightforward approaches, including trying to take direct control of the leadership of the NGOs, their budgets, and even their existence. In a handful of cases the PA has closed down NGOs or fired their directors. The single most important episode, however, was the promulgation in 1995 of a draft law regulating the relationship between NGOs and the PA that would have eliminated Palestinian NGOs as an autonomous element of civil society and made them semigovernmental agencies. The NGOs, with critical assistance from international donors, were able to beat back this particular law. But because the PA views Palestinian NGOs with distrust, it will continue its attempts to control them more directly.

The Palestinian Authority's disregard for institutional politics and procedures extends to its own legislative and judicial branches. Under the terms of Oslo, the elected Legislative Council was to be the decision-making body in the Palestinian areas under self-rule. Despite opposition boycotts and questionable election engineering, an 88-member Council was chosen in closely watched elections in January 1996. Even though Fatah candidates won a decisive majority with 50 seats, the PA (or more precisely the executive authority—the president and his cabinet) has consistently ignored its parliament's resolutions, laws, and hearings. When Palestinian television began broadcasting Council

sessions under a United States Agency for International Development project, the PA jammed the broadcasts and detained the program head, Daoud Kuttab.

Public opinion polls have consistently shown that the Council remains popular with the Palestinian public but is viewed as inconsequential. The PA's disregard for parliament prompted one of its most visible and important members, Haidar Abd al-Shafi, to resign in protest in August 1997. Abd al-Shafi's resignation was significant because of his stature as a senior Palestinian statesman. With a long history in the Palestinian national movement, he received the largest number of votes in the 1996 elections; earlier, he had headed the Palestinian delegation to the Israeli-Palestinian peace talks in Washington following the 1991 Madrid peace conference.

The judicial branch of government has also found itself in an untenable position. The PA has often simply ignored judicial decisions when it has found them disagreeable. This has been especially true of rulings ordering security forces to release prisoners held illegally. Noncompliant judges have been removed (illegally) when they have proved too nettlesome. The PA pressured the chief justice in the West Bank, Khalil Silwani, into resigning in early 1996. His replacement, Amin Abd al-Salam, was chosen because he was thought to be more "reliable." When Abd al-Salam proved just as stubborn in applying the law to PA activities, he too was fired. To bypass the court system altogether (and to impress the United States and Israel with its seriousness about cracking down on terrorists), the PA established security courts in 1995 that have been condemned by all impartial observers as legal frauds.

SYSTEMATIC CORRUPTION

Instead of relying on institutions and their processes to make decisions in public matters, the PA has resorted to a policy of personalizing power. This is seen most clearly in the construction of a cult of personality around Arafat himself. Arafat's picture is everywhere in Palestine today, from posters plastered on walls and buildings to banners fluttering from telephone lines. His likeness even greets visitors at Palestinian border crossings.

Personalized politics breeds corruption because power is vested in key individuals instead of political office. It is not surprising, therefore, that corruption has been rampant in Palestine. Instances of officials using their positions for personal gain are

abundant. Egregious corruption scandals (especially those that have affected public safety) have rocked the PA, including schemes involving inferior cement in PA construction projects, or prominent officials profiting from sales to the PA of rotting foodstuffs. By the PA's own admission, numerous ministerial officials draw salaries without ever showing up for work; some of these officials actually live abroad.

A recent prominent case of corruption clearly showed that personal ties, especially to Arafat, matter more than official position. In October 1997, Minister of Agriculture Abd al-Jawad Salah—one of the most popular and independent Palestinian politicians—publicly charged that high-ranking officials in his own ministry were producing false Palestinian licenses for Israeli citrus so that it could be marketed in Jordan under the terms of the Jordanian-Palestinian trade regime. Salah ordered them to stop and twice reported the scam and its participants to the PA attorney general; the operation continued unabated. The reason for inaction, it appears, is that Salah's deputy, Azzam Tibila, has protected those involved. Tibila is an Arafat appointee and strong Arafat loyalist, unlike his boss, and thus has more power than the minister of agriculture himself.

The single most important example of systematic—yet perfectly legal—corruption has been the establishment of economic monopolies over the importation of key basic commodities. The recipients of these monopoly rights invariably have been companies owned by families of important PA officials. Select PA officials have made their economic fortunes in the past few years as a direct result of their political standing.

Popular outrage at this endemic corruption has forced the PA to initiate measures to address the issue, or at least to undertake political damage control. In 1997 two events in particular forced the PA to reconsider its actions. First, the Palestinian inspector general released a report charging the PA with wasting through fraud and mismanagement nearly \$400 million during the 1996 fiscal year. Many believe the report understated the level of corruption and was released as a preemptive measure to head off further popular discontent. Second, Abd al-Shafi's resignation from parliament sent a shock wave through the Palestinian political establishment. In the fall of 1997 Arafat initiated a series of presidential decrees aimed at eliminating cor-

ruption and favoritism in the PA and improving government performance, including allowing parliament more authority to shape some policy outcomes. The changes will probably make a difference at the margins, eliminating the worst examples of corruption, but will likely matter little in the basic structure of PA governance.

THE POLITICS OF ANTITHESIS

The current system reflects the political strategy of a new regime seeking to ensure its position of power. In short, the central political task of the PA when it was established was to undermine the power and position of the PLO elite on the ground in the West Bank and Gaza that had built the institutions of civil society and had led the intifada. To accomplish this task and consolidate its own new-

found position of power, the PA has had to create a "politics of antithesis," that is, a politics that undermines the foundations of the authority of the intifada elite by completely changing the rules of the political game.

Whether this particular means of consolidating power has been employed consciously or reflexively is not important; that it has been done—and done rather successfully thus far—is clear. It is also not surprising, since any new

regime tries to solidify its bases of power. When the PA arrived in Palestine—with many of its key officials coming from PLO headquarters in Tunis—it faced an extant structure of authority that could have hampered consolidation of its power. The intifada-based structure of authority posed the greatest potential challenge to the new leadership and has thus been systematically attacked.

All revolutions attempt to disperse authority in order to survive; states seek to centralize it in order to function. The same is true of the PA, which has tried to recapture authority at the center. Members of the Palestinian political elite that built and mobilized civil society in the West Bank and Gaza embedded their authority in the grassroots of society. They did so both because they themselves came from more modest social roots than the old landowning elite, and because it made Israeli control much more difficult. Thus, the first policy of antithesis: to replace the devolved grassroots authority of the intifada elite through centralized decision making.

The second policy of antithesis has been to attack the institutional basis of the authority of the

The current system reflects the political strategy of a new regime seeking to ensure its position of power.

intifada elite through the personalization of politics. It is important to remember that the institutions of civil society built primarily by PLO cadres in the West Bank and Gaza in the 1970s and 1980s were more than just altruistic measures to alleviate suffering; these institutions represented the manifestations of the political ideology of the new elite. For this elite, politics is all about organizational and associational ties; it is not about creating cults of personality. The extreme anti-institutional policies of the PA are not just some cultural legacy; by attacking the institutions of civil society and institutional politics in general, the PA has undermined the political center of the intifada elite, making effective challenges to the new order far more difficult.

Finally, the intifada elite both espoused and practiced relatively pluralistic politics, not altogether different from that of the "outside" PLO. Although the system was not a paragon of democracy, many different streams of political thought and practice were tolerated and even encouraged. The kind of authoritarianism seen in Palestine today has no real precursor in modern Palestinian politics. When the "outside" PLO came "inside," the political logic changed. Because the intifada elite espoused and practiced pluralism and democracy, the PA has justified and practiced authoritarianism.

Two final points need to be made about the politics of antithesis. First, while a convenient shorthand, the inside-outside PLO dichotomy is not a

completely accurate conceptual tool to explain political instability and authoritarianism in Palestine. While outsiders are clearly the most important part of the PA—up to and including Yasir Arafat himself—outsiders alone do not make up the entire PA. Indeed, the PA has built its rule, in part, with the help of strategic groups within Palestinian society, including, ironically, the old landowning families of Palestine. The core issue is about the consolidation of power by a new regime over a society with an existing structure of everyday authority. The geographic origins of the new regime alone are not necessarily important; the political logic of its consolidation of power is.

Second, what has become of the new intifada elite that the PA has attempted to marginalize? They are still in Palestine, many continuing their work in the diminishing institutions of civil society. Some have been co-opted to work in various PA ministries as apolitical technocrats. Others have sided with Hamas and the Islamist opposition, seeing in them the best opportunity to reverse the PA's authoritarian tendencies. Still others have dropped out of politics altogether. Given a better political environment, these individuals may rise to decisively influence politics in Palestine again. For now, they have been defeated as a politically coherent and ideologically distinctive elite. The PA's politics of antithesis has largely succeeded in marginalizing potential challengers and consolidating its power in Palestine. ■

"The closure Israel imposed in 1993 has had a pronounced and deleterious impact on Palestinians. Their economy, already greatly weakened before the start of the peace process, has declined even further. . . . What is at stake are not only economic fundamentals such as employment and income creation, but the ability of human beings to live a normal life."

The Palestinian Economy after Oslo

SARA ROY

The foundations for a viable, self-sustaining Palestinian economy have failed to emerge in the wake of the Oslo peace accords. Economic conditions in the Gaza Strip and West Bank have deteriorated markedly, leaving the Palestinian economy weaker now than it was during the intifada (uprising) of 1988–1993, when confrontations between Palestinians and the Israeli army were daily occurrences. It is poverty, not prosperity, that increasingly characterizes the local economic landscape.

The reasons for Palestinian economic decline are many and interrelated but turn on one key issue: Israel's closing of its borders with the Palestinian territories. Israeli closure policy, which was first imposed in March 1993 in response to attacks by Palestinians on Israelis in Israel itself, is the single most harmful external factor affecting the Palestinian economy. Closure restricts the movement of labor and goods and distorts rational economic activity. Now a permanent feature of the local economy, it has, to an unprecedented degree, directly impinged on Palestinians' ability to care for themselves and their children. Closure has resulted in growing poverty, high unemployment (and permanent unemployment for a widening part of the labor force), rising levels of child labor, constrained trade relations, a further distortion of market forces, and an increasing need for relief and social assistance. The economic and political challenge is formidable. Who is prepared to confront these problems, and how?

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THE ECONOMY BEFORE OSLO

Historically, Israeli economic policy in the Gaza Strip and West Bank was composed of four basic strategies: the expropriation of land and water, the integration of Palestinian labor into the lowest rungs of the Israeli workforce, the restructuring of Palestinian trade toward Israel, and the elimination of the "Palestinian refugee problem." Israeli policy encouraged economic integration, not structural reform. This approach fostered extreme economic dependency on Israel, especially with regard to labor and trade. By 1987, for example, more than 70 percent of Gaza's labor force was working inside Israel and 90 percent of its trade was confined to Israel.

Wage income earned in Israel became an essential component of the territories' GNP. However, this deep Palestinian dependence on the Israeli market suppressed local economic development. Given the myriad restrictions imposed by Israel on the development of the Gaza Strip and West Bank economies, there were few opportunities for domestic expansion and reform.

Between 1972 and 1990, the Palestinian labor force increased by 64 percent while domestic employment increased by only 28 percent. The Palestinian economy consequently became an exporter of labor and an importer of goods. Consumption consistently exceeded production and the resulting deficit was filled by imports. Since trade occurred largely with Israel, not only Palestinian trade but also employment, production, and consumption became inextricably linked to Israeli market conditions. Palestinians were compelled to look for economic opportunity outside their own economy, leaving it to stagnate.

The Palestinian economy has also come under immense economic pressure as a result of three

political events: the intifada, which began in December 1987; the 1991 Persian Gulf War; and the March 1993 closure.

During the first three years of the intifada, the GNP of the West Bank and Gaza fell by at least one-third because of declines in productivity, trade with Israel, employment in Israel, and remittances from Palestinians outside the occupied territories. By early 1991, the dramatic loss of income had produced new economic behavior—including declining levels of consumption, savings, and investment—that continues today.

During the Gulf war, Palestinian support of Iraq ended direct aid from Kuwait and Saudi Arabia to the occupied territories and terminated remittance income from Palestinians living in the Gulf. In 1989, Palestinians in the West Bank and Gaza received \$310 million in remittances and direct aid from the Gulf; by April 1991, these monies had largely evaporated.

With the start of the Gulf crisis, the Israeli market also began to reduce its Palestinian workforce. Shrinking access to the Israeli labor market had a pronounced impact: unemployment reached 40 percent in the Gaza Strip alone, personal income plunged, and savings were seriously depleted. By June 1991 the United Nations Relief and Works Agency (UNRWA) was providing rations to 120,000 Gazan families—almost the entire population. In November 1992, UNRWA's Gaza office posted notices for 8 jobs for garbage collectors and received 11,655 applications, close to 10 percent of Gaza's total labor force.

By March 1993, when the Israeli authorities imposed closure, economic conditions in the occupied territories were adverse. Prime Minister Yitzhak Rabin stated publicly that closure would remain the basic reality during the interim period, which began with the signing of the first Oslo agreement in September 1993; it remains in effect today.

Thus, by the time of the now famous handshake between Yitzhak Rabin and Palestine Liberation Organization (PLO) chairman Yasir Arafat, the Palestinian economy was in a state of marked decline. It was an economy characterized by heavy dependence on external (primarily Israeli) and diminishing income sources, gross imbalances in the labor market, rising unemployment, weakened productive sectors such as agriculture and industry, and

restricted trade relations. Economic development and sustainable growth had long since been impeded.

OSLO ECONOMICS

Initial expectations of economic prosperity emerged from the 1993 Declaration of Principles (Oslo I) and the 1994 Economic Protocol, or Paris Agreement. These two documents, along with the 1995 Interim Agreement (Oslo II), which formally extended limited self-rule to the West Bank, define a legal framework for Palestinian economic activity, especially economic relations with Israel. Certain elements of this framework are worth noting.

First, under the terms of the agreements, labor, capital, manufactures, foodstuffs, and services remain subject to Israeli authority. Furthermore, land and water also remain under complete Israeli control. In June 1997, Israel directly controlled 40 percent of the Gaza Strip and 74 percent of the West Bank, the latter known as Area C. In Area C, Israel has full authority over zoning, building, and land registration. In those West Bank lands (approximately 23 percent) under both Palestinian and Israeli authority (Area B), the Israeli government maintains complete control over land registration procedures. It is only in Area A (approximately 3 percent) of the West Bank that Palestinians exercise full control over land disposition.

Second, Israel retains authority over all borders, which translates economically into control over the movement of labor and goods, the closure notwithstanding. Critically, the economic changes allowed by the economic protocol occur primarily at the micro level—the level of individual economic sectors—and not at the macro level, where the structural terms of Israel's economic relationship with the West Bank and Gaza are defined and enforced.

Third, as the World Bank has pointed out, the agreements "split up the West Bank and Gaza into a number of largely separate economic units with little economic interrelationship among them, breaking up an already small domestic market into even smaller ones."¹ This geographic segmentation of the occupied territories has been reinforced by the closure policy.

Fourth, despite the removal of certain restrictions imposed during military occupation, the majority of restrictions, many of them economic, remain in force during the interim period and cannot be modified or repealed by the governing Palestinian Authority. Although the Israeli veto over Palestinian legislation was eliminated in the 1995

¹See Sara Roy, "U.S. Economic Aid to the West Bank and Gaza Strip: The Politics of Peace," *Middle East Policy*, October 1996, p. 61.

Interim Agreement, the PA has, in effect, no power of implementation, making the legalities of the agreement effectively moot. The debate over the legalities of the closure is similarly irrelevant. Israel continues to impose closure and has the power to do so whether such action constitutes a legal violation or not. According to one Israeli economist, the "Palestinians paid as much for [the] Oslo and Paris [agreements] as they did for 1948."

Although economic conditions have declined since the start of the Oslo peace process, a more positive outcome would, at best, have allowed for some economic growth or improvement. It would not, however, have allowed for major development or structural reform, since the structural terms defined by the various Oslo agreements are the same as they were under direct Israeli occupation, despite the formal lessening of certain economic constraints for Palestinians. The structural framework for Palestinian economic development remains integration with and dependence on Israel.

CLOSURE'S IMPACT

As the fifth anniversary of the Oslo signing approaches, the Palestinian economy has been significantly damaged. The principal reason is closure. Closure has not only deepened Palestinian economic dependence on Israel but has introduced negative structural changes in labor and trade, for example, that may soon prove irreversible.

The Israeli government officially justifies closure as a security measure, but the Israeli security establish-

ment has publicly admitted that closure has limited security value given the recent spate of suicide attacks by Palestinian extremists against civilians inside Israel. Closure remains imposed for two main reasons: it serves an important psychological function for the Israeli public; and it is used as a political weapon that forces "Palestinian negotiators into accepting short-term economic improvements as opposed to long-term territorial and political solutions."²

Closure has three forms: general, total, and internal. General closure refers to the overall restrictions placed on the movement of labor, goods, and the factors of production between the Palestinian territories and Israel, between Gaza and the West Bank, between the northern and southern West Bank, and between the West Bank and Jerusalem.

Total closure refers to the complete banning of any movement between the areas described above and is typically imposed after an extremist attack in Israel.

Internal closure, which was made possible by the geographical cantonization of the West Bank that was formalized in the Interim Agreement, refers to restrictions on movement between Palestinian localities within the West Bank itself.

Between 1993 and 1996, the Israeli government imposed 342 days of total closure in the Gaza Strip and 291 days in the West Bank.³ On average, for almost

one-third of each year between 1993 and 1996, Palestinians in Gaza and the West Bank were banned from any physical or economic movement outside their own territory. In fact, less than 4 percent of the total population of the West Bank and Gaza Strip currently has access to Jerusalem.⁴ The impact of closure policy has been extremely damaging for the economy and its primary functions, and more generally for human beings and their ability to live a normal life.

Perhaps the most visible illustration of closure's impact is seen in rising unemployment (defined as the percentage of the labor force that did not work a single hour for pay during the survey week) and the introduction of permanent joblessness as a fact of life for a growing percentage of workers. By mid-1996, the total Palestinian labor force—the number of people working or seeking work—exceeded 500,000 and grew by 5.6 percent, or by 28,000 people, nearly double the population growth rate and the working age population growth rate over the same period.

The average unemployment rate in the West Bank and Gaza by mid-1996 was 29.2 percent,

The Palestinian economy has been in a state of depression for the last five years.

²Sara Roy, "Economic Deterioration in the Gaza Strip," *Middle East Report*, July–September 1996, p. 39.

³Cited in Palestine Economic Policy Research Institute (MAS), *MAS Economic Monitor: Monitoring the Palestinian Economy*, Palestine Economic Forum home page, August 19, 1997. Unless otherwise indicated, the data that appear in the remainder of this article are based on this and the following sources (full references are available from the author): Salem Ajluni et al., *Economic and Social Conditions in the West Bank and Gaza Strip, Quarterly Report* (Gaza: United Nations Office of the Special Coordinator in the Occupied Territories [UNSCO], October 29, 1996, April 1, 1997, and October 4, 1997). World Bank and UNSCO, *Closure on the West Bank and Gaza Fact Sheet*, August 31, 1997. World Bank, *Bank Operations*, in Palestine Economic Forum home page, June 1997. World Bank, *Human Resources*, Palestine Economic Forum home page, September 4, 1997. World Bank, *Donor Support*, Palestine Economic Forum home page, August 21, 1997.

⁴Salim Tamari, presentation on Jerusalem, Middle East Studies Association meeting, San Francisco, Calif., November 23, 1997. KP 511

almost 60 percent higher than at the end of 1995 (unemployment reached 39.2 percent in Gaza and 24.3 percent in the West Bank). Clearly, job creation is falling behind the growth of the labor force. During times of total closure, unemployment rates have climbed as high as 70 percent in Gaza and 50 percent in the West Bank. Indeed, following the July 30, 1997, total closure of the territories, the official unemployment rate of 20 percent in June 1997 immediately rose to over 30 percent and to over 60 percent if the severely underemployed and discouraged workers are included.

The loss of work in Israel has been a primary factor in rising unemployment in the West Bank and Gaza. Among the Gazan labor force alone, the number of workers in Israel fell from 80,000 just before the intifada to 30,000 at the time of the March 1993 closure. Since then the number of Gazans working in Israel has, depending on the severity of the closure, fluctuated between 0 and 30,000, with the average hovering around 20,000–22,000. By June 1997, 58,000 Palestinians held permits to work in Israel (30,000 from Gaza and 28,000 from the West Bank), although the UN reports that only about 40,000 people were actually able to find work. Not surprisingly, the value of wage incomes earned in Israel (in 1995 dollars) fell an estimated 90.5 percent, from \$741 million in 1992 to \$70 million in

1995. It should be noted that from 1996 to 1997, approximately 75 percent of all new jobs derived from employment in Israel and with the Palestinian Authority; only 25 percent of jobs were created in the private economy, which also has experienced the highest level of job destruction.

WEAKENING AN ALREADY WEAK ECONOMY

The Palestinian economy has been in a state of depression for the last five years, despite a slight recovery in 1995 and 1996 and noticeable improvements during the first half of 1997 (for example, small increases in employment levels, reductions in underemployment, and a stabilization in the number of unemployed). The total closures of February–March 1996 and August–September 1997, however, undermined whatever economic recovery had taken place, which demonstrates how quickly gains and growth prospects can be reversed in an economy as weak as the West Bank and Gaza's. It also illustrates the inability of the economy to self-correct. These closures led to an especially damaging decrease in workers' incomes and export revenues generated largely in trade with Israel.

Trade is a critical component of economic development in economies as small as Palestine's. Because closure impedes (and total closure bans) the export of Palestinian manufactured goods and

THE TOTAL CLOSURE OF AUGUST–SEPTEMBER 1997

On July 31, 1997, the day after the double suicide bombing of the Mahane Yehuda market in Jerusalem, the Israeli government imposed a total closure on the Gaza Strip and West Bank and an internal closure in the West Bank. The closure was eased on September 2 but reimposed three days later following a triple suicide bombing in Jerusalem by Palestinian extremists. Each day of total closure resulted in a loss of \$1.35 million in direct household income in the West Bank and Gaza. The losses in trade income reached \$1.3 million daily. If indirect losses are included, the World Bank has estimated, each day of the closure cost the Palestinian economy between \$4 million and \$6 million, or between 40 and 60 percent of total income and output in the territories.

The Palestinian Authority has put these losses at between \$8 million and \$9 million daily.

In response to the bombings, the Israeli government withheld payment of revenue to the Palestinian Authority (value-added taxes, excise taxes, customs duties, and income taxes collected by Israel on behalf of the PA), a transfer Israel is legally obligated to make, and made expeditiously. By the end of July, Israel owed the PA between \$40 million and \$45 million, a third of which was transferred on August 18. These transfers typically account for almost two-thirds of the PA's total revenue. The withholding of these monies therefore created enormous problems for local economic activity and personal welfare. By mid-October the final revenues had been transferred to the PA.

For some time, the damaging effects of closure were compensated, in

part, by donor-financed emergency job creation. Between April and September 1996 (in response to the February–March 1996 closure), donor-supported programs employed 13,400 people per month. In addition, the United Nations Development Program and the UN Relief and Works Agency were employing 4,500 persons per month. These monies, disbursed through the World Bank's Holst Fund, were critical in helping to alleviate the effects of the closure. By the end of March 1997, the World Bank had disbursed \$34 million for employment generation. However, the number of jobs has been seriously cut back. Furthermore, the August 13, 1997, decision by the United States Congress to prohibit United States contributions to the Holst Fund exacerbates an already difficult economic situation in the Gaza Strip and West Bank.

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agricultural products to Israel and eliminates any regularity from the commercial relationship, Palestinian producers and commercial enterprises have suffered considerable losses, especially in the short run. By the end of September 1997, for example, total losses to workers and export businesses in the West Bank and Gaza as a result of the August–September closure, including the losses associated with internal closure, were projected at \$227 million, or twice the amount of donor aid disbursed during the first half of 1997.

Trade in agricultural products is most affected since these products cannot endure long shipping delays and require special arrangements for storage. Across industries, production planning is hindered, labor and transportation costs increase significantly, credit becomes difficult to obtain, and the costs of raw materials increase. Moreover, even when total closures are eased, the movement of goods and materials is subject to costly and cumbersome bureaucratic regulations and the mobility of employers and staff is seriously impeded.

One potentially damaging consequence is that Israeli importers are turning to more stable markets elsewhere, notably Egypt and Jordan, costing the Palestinian producer a growing share in the Israeli market on which he or she increasingly relies. This represents a structural change that could prove difficult if not impossible to reverse if not addressed immediately.

Despite the much-heralded lessening of restrictions on Palestinian trade incorporated into the Economic Protocol, Palestinian trade relations appear similar to those that obtained during direct Israeli occupation. They remain characterized by Israel's dominance as a trading partner, a one-way trade structure that denies Palestinian businesses free access to Israeli markets while giving Israeli producers unimpeded access to Palestinian markets, an excess of imports over exports, and limited and often obstructed access to third-country export markets.

Unlike in the past, however, closure has virtually cut off the West Bank and the Gaza Strip from each other and has separated their two populations. As a result, West Bank–Gaza trade has diminished and the performance of Palestinian agriculture and manufacturing—the productive backbone of any development process and the source of the area's regional comparative advantage—has weakened. The growth that has occurred has been based on con-

struction, public consumption, and service activities, all of which contribute little to structural economic reform. The uncertainty of the environment, of which trade is one expression, and the inability of the Palestinian economy to register any positive growth since closure was first imposed, have also created strong disincentives for foreign investment and have weakened private sector activity, the prerequisite for capital accumulation and sustainable employment.

Palestinian economic loss is reflected in the territories' GNP. Between the end of 1992 and the end of 1996, real GNP in the Gaza Strip and West Bank declined 18.4 percent, mainly from the loss of employment in Israel and the decline in trade flows that resulted from closure. Real GDP, which refers to the level of economic activity inside the occupied territories, increased by 4.4 percent because of heightened activity in construction (itself a response to pent-up demand for housing) and public sector expenditure. The rise in GDP, however, did not result from greater output and productivity in industry and agriculture. The difference between GNP and GDP reflects Palestine's heavy dependence on Israel as a source of employment.

Perhaps most striking is the decline in real per capita GNP, which is a measure of income generated per person and a clear indicator of living standards. Between 1992 and 1996, real per capita GNP declined by 37 percent in the West Bank and Gaza, falling from \$2,700 to \$1,700. High population growth rates exacerbate the effect of a declining GNP on living conditions. In order for real per capita income to rise, the GNP growth rate would have to be greater than the population growth rate, which is almost 6 percent annually. In 1996, however, the GNP of the occupied territories declined by 3 percent.

THE HUMAN IMPACT

Palestinians in the West Bank and Gaza have suffered considerably from the closure. Sixty percent of workers are wage earners, which means that the majority of Palestinians depend on wage labor for survival. Palestinian households have clearly felt the cumulative and interlinked effects of economic depression, rising unemployment, and closure, illustrated by declining wage rates and lower average consumption levels.

Between the end of 1995 and the first half of 1997, the average monthly wage income for a worker in the West Bank and Gaza Strip fell from

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\$411 to \$342, a reduction of 17 percent. By late 1995, the average worker's monthly income could cover only 67 percent of basic needs and 51 percent of all expenditures; this fell to 64 percent and 47 percent respectively by the third quarter of 1996.

In early 1996, at least 14 percent of the population of the West Bank and Gaza Strip lived at or below a poverty level of between \$500 and \$650 per person per year. The number of Gazans requiring assistance to survive exceeded those receiving assistance by 74 percent. By early 1997, 36.3 percent of the Gaza Strip population and 10.5 percent of the West Bank population were living at a poverty level of \$650 per person annually.

The Palestinian family has responded to economic distress in several ways. One is an increase in child labor. In 1996, approximately 18,500 children, ages 12 to 16, were working. They accounted for 6.6 percent of the labor force and over half were employed full-time (more than 35 hours a week). Sixty percent of these children were paid between \$7 and \$10 per day.

Children's work varies according to region and locality. Children from villages tend to work in agriculture, while those from the city and refugee camps typically work as street peddlers, dishwashers, assistants to car mechanics, agricultural laborers, and construction workers. Increasingly, Palestinian children under 16 years are also working inside Israel. Children are the most vulnerable members of the workforce; one study indicated that 20 percent of those interviewed, 15 years and younger, stated that their employers subjected them to some form of physical and/or emotional abuse. About 14.5 percent reported being injured on the job.⁵

Another household response to growing economic pressure, especially falling income, is reduced basic monthly expenditures on items such as food, housing, education, and medical care. During the first quarter of 1997, basic monthly expenditures fell an average of 8.3 percent and accounted for 75 percent of monthly household purchases, compared with 66 percent of such purchases during 1996. Other responses include the depletion of savings and the sale of gold jewelry and other possessions in an attempt to maintain family con-

THE ROLE OF DONOR AID

Since the implementation of the Oslo accords, international donors have pledged \$3.4 billion to the West Bank and Gaza Strip for the years 1994 to 1998. By March 1997, \$2.7 billion had been officially committed for specific projects; of this, \$1.5 billion had been disbursed for the support of the bureaucracy, infrastructure and domestic water projects, and emergency relief.

Donor aid has been crucial to sustaining the local economy, especially under closure. Yet donor strategies have emphasized improvement, not reform, in order to demonstrate immediate political progress and address urgent economic needs. While there are many examples of viable projects, the question remains one of priorities—especially in a context where 30 to 40 percent of the labor force is, in effect, permanently unemployed; where growing numbers of people are living at a subsistence level; where health and education services are inadequate and deteriorating, largely because of poorly skilled (and de-skilled) professionals; and where the economy's main productive sectors continue to erode. S. R. ■

sumption levels. This sort of behavior is not restricted to the poor alone. The author has witnessed middle-class women in Gaza selling gold jewelry for immediate cash, and in one incident asking a local notable for 120 shekels to buy six kilos of flour. Individuals and families are also using credit to buy food. The poor, who constitute the majority, are seeking relief—cash or food aid—in growing numbers from social assistance agencies.

Between early 1995 and early 1997, for example, the number of families in the West Bank and Gaza seeking assistance from the Palestinian Social Affairs Ministry increased from 21,551 to 30,000. Furthermore, by December 1996, UNRWA was aiding an additional 21,900 families, or 89,000 people.

The growing impoverishment of the population is newly visible on the streets of Gaza and the West Bank. A common sight are beggars, often women, who stand in streets or go house to house asking for money. In Gaza, groups of women and children can be seen begging, going from one institution to another seeking cash or food. In the author's 12 years of working in the Gaza Strip, this is unprecedented. A local industry of sorts has also emerged around garbage piles, where children and adults are hired for a low flat fee to sift out reusable materials, which are then given to a middleman who in turn sells them for a profit. The Israeli press has reported incidents of Palestinians selling their kidneys to Israeli hospitals and one Palestinian research cen-

⁵Mervat Rishmawi, *National Report on Child Labor in the West Bank and Gaza Strip* (Geneva: International Programme on the Elimination of Child Labour, International Labour Office, 1997).

ter has described isolated incidents of husbands prostituting their wives.

The growing need for assistance among Palestinians is indicative not only of a declining economy but of a weakened social safety net traditionally used to protect individuals in times of hardship. This net is fraying because the hardship is increasingly widespread.

THE PALESTINIAN AUTHORITY'S RESPONSE

While Israeli policy has remained the primary determinant of Palestinian economic life during the interim period, the Palestinian Authority has also played a role, particularly with regard to institutional development and management, economic legislation, and trade procedures.

Under the PA, institutional development in Gaza and the West Bank remains characterized by low professional standards, the centralization of authority in President Yasir Arafat, the proliferation of political appointees to professional positions, the institutionalization of a patronage system, the infiltration of institutions by the secret services, and PA hostility toward the Palestinian nongovernmental sector.⁶ This has resulted in a weak regulatory and service delivery system and a less than effective government infrastructure.

Although the PA has introduced some needed changes in the legal environment and has established some viable financial institutions, there still is no basic law or constitution, and legislation in a variety of areas such as the governing of private companies, antitrust, and property owner-tenant contracts is lacking. Foreign investors are loath to enter the West Bank and Gaza Strip economy since it remains unregulated and there is no legal accountability.

The PA has also directly contributed to economic pressures through the creation of monopolies. The authority has established at least 13 monopolies in the Gaza Strip, controlling the import of such commodities as flour, sugar, oil, frozen meats, cigarettes, concrete, steel, tobacco, and petroleum. These monopolies are under the control of several individuals in Arafat's inner circle.

Monopolistic practices have artificially inflated prices, especially for basic food commodities. This has precluded fair competition and has made it even more difficult for people to meet their essen-

tial needs. In some cases, and for certain periods of time, a basic commodity—flour, for example—has been transformed into a luxury item. Recently, there was an attempt by some Palestinian businessmen, reportedly put down by Arafat himself, to establish a monopoly over the acquisition of work permits by Palestinian laborers.

The PA monopolies generate anywhere between \$100 million and \$400 million per year. This revenue effectively amounts to an income transfer from poorer economic groups to a new economic class that uses those profits to help subsidize the PA bureaucracy and, most likely, for personal gain. This new economic class emerged after the installation of the PA and possesses real political power—power that is secured through the closure in collusion with Israeli business interests.

AN UNTENABLE SITUATION

The closure Israel imposed in 1993 has had a pronounced and deleterious impact on Palestinians. Their economy, already greatly weakened before the start of the peace process, has declined even further. That Israel remains central to determining the quality and character of Palestinian economic life is undeniable; that Israel continues to have a direct impact on the way people live in the Gaza Strip and West Bank is also undeniable.

Under closure, the possibility of economic improvement is uncertain; the possibility of economic development, dim. The relationship between peace and prosperity remains illusory. What is at stake are not only economic fundamentals such as employment and income creation, but the ability of human beings to live a normal life. The aim, therefore, should be to reform the economy and restore the ordinary.

There are clear imperatives for the occupied territories. At the economic level, there is a desperate need to create immediate and sustainable employment, and then to restructure industry and agriculture. At the political level, the Israeli government must end the closure and the PA must be challenged to reform its existing antidemocratic practices; only the international community, especially the United States and the European Union, can exert the kind of pressure required. At the social level, there is an urgent need to invest in people through training, education, and health. At the human level, the family and the individual need desperately to be healed. Without that, nothing will be possible. ■

⁶Sara Roy, "Report from Gaza: Alienation or Accommodation?" *Journal of Palestine Studies*, Summer 1995, p. 78.

"The central puzzle of Israeli politics is how the state has managed to maintain a stable democratic system. In part, the answer lies precisely in its Jewishness, the continuity of which... helps explain the strengths and weaknesses of this democracy."

Israel's First Fifty Years

ALAN DOWTY

When Zionist founder Theodor Herzl first envisioned "the Jews' state" (as *Der Judenstaat* is most accurately translated) in 1896, little was "Jewish" either in the arguments for the state or in the nature of the state proposed. It was to be a state like other states, based on liberal democratic European models and other ideas of the time. Though some Zionist thinkers deplored the lack of Jewish content, Herzl was in tune with a central aspect of Zionism: to escape from the particularism of the Jewish past and to recast Jewish life in the new universal mode of national self-determination.

Herzl's goal of statehood for Jews was realized—as he himself had predicted—in half a century. Since then another half century has passed, and the tension between the pull of universalism and the demands of particularism remains as intense as ever. What is the significance of a "Jewish" state? Should Israel aspire to be a state like other states, on the Western liberal democratic model, or to be something uniquely Jewish, an expression of the Jewish people's own history and traditions? Or should it be a synthesis of the two?

DEMOCRACY AND JUDAISM

Can a state be both Jewish and democratic? If Jewishness is defined in religious or racial terms, this poses serious issues. Yet even if it is defined as a national or ethnic identity, as in other nation-states with a dominant ethnic character, the challenges to democracy in Israel's case have been particularly daunting. Consider the facts: relatively few of the Jewish immigrants to Palestine or to

Israel were from countries with a viable democratic tradition; most immigrants came as refugees dominated by a sense of insecurity, and those who came were plunged into a situation of permanent war requiring total mobilization and a constant state of high readiness. The country was plagued by serious internal cleavages, both between Jews and Arabs and within the Jewish community itself, and the economic pressures created by security needs and massive refugee inflows were staggering.

The central puzzle of Israeli politics is how the state has managed to maintain a stable democratic system. In part, the answer lies precisely in its Jewishness, the continuity of which—Herzl notwithstanding—helps explain the strengths and weaknesses of this democracy.

Jewish history, especially in nineteenth-century Eastern Europe, included a striking exposure to a certain kind of political experience. The main elements of this experience were: a struggle for survival at the community and individual levels in a hostile environment; self-regulation through well-developed legal, judicial, and legislative institutions; processes for selecting the community's own leadership; provision of a broad range of community services without reliance on the outside; and, typically, a gap between the formal structure of power and the real power relations within the community.

Though not democratic by modern standards, these practices created a foundation for the growth of democratic institutions by providing modes of participation that reflected the essentially voluntary nature of community membership and by developing a body of law that mandated basic human rights. However, Jewish politics also contained serious weaknesses in terms of democratic potential. One was the long habit of secrecy, of concealment and closing off from the outside. A second was the absence of "civic habits" of an ingrained deference

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to legitimate public authority, and the development of an attitude of expediency toward the law along with a contentious and even unruly style of politics. But perhaps the most glaring weakness of Jewish politics was the fact that, being rooted in a strong sense of community, it offered little guidance in including those who were not members of this community.

BUILDING THE JEWISH STATE

There was no enforceable central authority in the Zionist movement. Early Zionist settlers trying to build a new society amid an existing Arab population in Palestine were few in number, in a hostile setting, and relied on each other for support. This meant toleration of differences, since only by compromise would a common framework among the different settlements work. This reality, which reinforced existing political habits, shaped the democracy of the Zionist movement much more than Theodor Herzl's vision. The capacity of the Zionist movement to encompass diversity was astounding; it included antithetical worldviews that would have split most movements many times: socialist and nonsocialist, traditional and revolutionary, religious and secular, political and cultural. The power sharing that made this possible was exemplified in the role of religious Zionist parties. Beginning in the 1930s, Labor Zionist leaders, who combined their Zionism with secular socialist principles and dominated the Jewish community in Palestine, made explicit arrangements with the religious Zionist parties—which represented the minority that advocated a Zionism tied to religious law—on the proportionate division of jobs and other benefits. This initiated a 40-year period of partnership between Labor Zionists and religious Zionists.

By the end of World War II, and despite internal divisions that led to fiery clashes, Jews in Palestine were able to maintain a level of organization and self-defense extraordinary for a community without formal government powers. This community levied and collected taxes, established an army, represented its own interests internationally, administered welfare and educational services, and set its own economic and social policies—all on a voluntary basis. The strength of this social cohesion was apparent in the 1948 war that led to Israel's independence.

In 1948, for the first time in almost two millennia, Jews could practice politics in their own fully sovereign state. The first two decades of statehood, roughly up to the 1967 Six Day War, were a time

during which the basic patterns of Israeli politics were set, a high measure of internal stability was achieved, and the government's legitimacy and capacity to provide effective direction were established. One reason for this continuity was the effective leadership of David Ben-Gurion, the dominant figure from the early 1930s until his resignation as prime minister in 1963. Central to Ben-Gurion's thinking was the concept of *mamlachtiut*, a term of his own devising that is best translated as "a sense of public responsibility" or "civic-mindedness." As Ben-Gurion saw it, Jewish history had created norms that were inimical to statehood; his solution was to establish the universally binding character and sovereign independence of the new state—not as an end in itself but as an instrument to restore the Jewish people to normality among the family of nations.

Ben-Gurion accomplished the first task of *mamlachtiut*—to bring all elements of the Jewish community under government authority—quickly and with little need for coercion. This included important concessions to the ultraorthodox community, which had maintained its distance from Zionist institutions. The second task was to reduce the sectarian character of public life in the Jewish sector. Ben-Gurion moved, where possible, to put public services such as education on a civic, nonpartisan basis. But the key to centralizing authority was the way Ben-Gurion combined the parliamentary model with oligarchic parties and coalition politics to produce a government with strong executive powers. Since no party ever captured a majority in an election, control was achieved by assembling a workable majority coalition and imposing the principle of collective responsibility. This meant that all ministers were bound by cabinet decisions, and if their parties refused to go along with a cabinet majority, they had to leave the coalition. Ben-Gurion's success in establishing effective cabinet rule led to criticism that there was too much concentration of state power, since the Knesset (parliament) was dependent on the cabinet and dominated by it.

But while Ben-Gurion's achievements in establishing executive power were impressive, it would be misleading to focus only on the structure and powers of Israeli institutions. Many important policy decisions, even early on, were products of a bargaining process in which not only various branches of the government, but also important quasi-governmental bodies were active in setting the political agenda, controlling the debate, and shaping the decisions that resulted.

Thus the drive for "civic-mindedness" did not alter many habits of Jewish political behavior. It did achieve some coherence in government authority, and pushed the system, at least temporarily, toward greater centralization and unqualified majority rule. It also saw the establishment of a working parliamentary system, though one dominated by the executive and without separation of powers, and with no written constitution or other limits on parliamentary sovereignty. Yet many elements of traditional Jewish politics remained in the new state. Proportional representation, mutual veto (in which no major group rides roughshod over another), and a multiparty system all carried over from past practice.

THE REASSERTION OF TRADITION

As time passed, the inescapable focus on security made Labor Zionism's ideological agenda appear increasingly irrelevant. The gap between a secular, socialist elite, mainly of Eastern European origin, and a significantly more traditional public, much of it of Middle Eastern origin, was bound to assert itself. But organizational and bureaucratic stagnation within the dominant elite led to a failure to bridge the generation gap within its own ranks, let alone reach out to alienated non-European and religious Jews. In this context the 1967 war, by reviving dormant territorial issues, contributed to the rise of the nationalist right's agenda; the general malaise following the 1973 war accelerated the process by casting a giant shadow over Labor's aura of invincibility. These trends culminated in 1977, when the inconceivable occurred and a center-right government came to power after half a century of Labor Zionist hegemony.

The upheaval of 1977 marked an increased challenge to "Western" liberal and rationalist values and a resurgence of particularistic and nationalistic thinking. The post-1977 period was dominated, some believed, by a "New Zionism" rooted in religious and ethnic sentiments and focused on exclusivist territorial claims. There was a loss of consensus on the most basic issue: the very definition of the state that Zionism pursued. The nationalist right reopened the territorial issue and raised the prospect of a state without a Jewish majority. The gulf that opened between competing territorial and demographic conceptions of Israel was widened by overlapping communal divisions that had been less politically significant before. The new combination of religion and nationalism, as expressed in the newfound hawkishness of religious Zionists, made political compromise more difficult

to achieve. The growth of the ultraorthodox community in size and political power added to this by bringing to the political center groups that challenged basic elements of Zionism.

Modernized secular Zionists saw this as a turning point in Israeli attitudes, and as a huge step backward. Uniqueness, rather than normalization, was the new watchword. Instead of becoming a nation like other nations, Israelis were again seeing themselves, in the words of Balaam's blessing, as "a people who shall dwell alone" (Num. 23:9). Israel was moving from a universalistic, secular, rational, civic orientation to one that was particularistic, religious, and mystical. The reassertion of tradition could be seen on a number of fronts, from a strengthening of Jewish studies in secular schools to a revival of traditional gender roles. In somewhat oversimplified terms, the Israeli public seemed to be dividing into "Jews," particularistic and tradition-oriented, and "Israelis," seeking to build a new national identity among the free nations of the modern world.

DIVISIONS COMMUNAL, RELIGIOUS, AND ETHNIC

A closer look at the major cleavages in Israel illustrates the interplay of tradition, ideology, and modernization. Israel is marked by a communal division between Jews of European background and those from the Middle East, Africa, or Asia; by a religious division between Orthodox and non-Orthodox Jews; and by an ethnic division between Jews and Arabs. The "Jewish" patterns of politics play out differently in each of these contexts.

The communal split in Israel developed from the reality that members of the founding generation were predominantly secular Zionists from Eastern Europe, and that the bulk of more traditionally inclined Jews from non-European backgrounds arrived after the social and political framework had been established (mostly during the first decade of statehood). The European elite tended to regard Middle Eastern Jews patronizingly, assuming that they would have to assimilate to the prevailing model. However, gaps between the two communities persisted into following generations in social, cultural, political, and (to a lesser extent) economic terms, but the political quiescence of the first generation did not. The political awakening of the second-generation "Eastern" Jews, from the late 1960s, was marked by deep resentment toward the existing (Labor) establishment, and contributed greatly to the upheaval of 1977.

But while its grip has been loosened, the Western, secular model of Zionism is still the officially sanctioned version taught widely and systematically. In addition, the categories of "Western" and "Eastern" (or Ashkenazi and Sephardi) have become increasingly irrelevant as intermarriage has risen steadily. Remaining communal differences may meld into the distinction between modernizing "Israelis," likely to be disproportionately of European background, and more traditional "Jews," who would include most Middle Easterners.

This distinction would, however, have to be seen in the context of the strong sense of commonness among Jews in Israel that is apparent in any examination of communal relations. At bottom the communal split is not a major threat to Israel because both communities regard it as an artificial and transitory division. There is no significant opposition to integration into a common society and culture. The importance of this can be seen by comparing it with the split between religious and secular Jews.

Religious-secular relations are of special significance for the political system because of the historic blurring of civil and religious matters in Jewish life and the lack of strong support for the principle of separation of religion and state. The weight of tradition was reinforced in the Israeli experience by the practical need to compromise on religious demands in order to preserve unity. Ultimately this developed into ingrained habits of coexistence according to formulas that fit neither side's worldview squarely, but also did not unduly impinge on either group's basic way of life. Religious politics in Israel reflect the bargaining pattern in Jewish political tradition. Both Zionist and non-Zionist religious parties, as well-organized groups representing distinct subcultures with their own networks of institutions, have succeeded in gaining benefits from the political system.

Power sharing has enabled the religious subculture to resist secular assimilation by strengthening its own institutions. This is especially true in education but extends through an entire network designed to preserve the integrity and vitality of religious life within the national-religious community. There is even greater autonomy in the ultra-orthodox community, which has its own courts, welfare institutions, religious authorities, and independent schools. From the secular side, this separation means that religious authorities make little effort to impose their rulings on the secular major-

ity, even when they are committed in principle to doing so. Each side is forced to recognize that it cannot push the other past a certain point without threatening Jewish unity as well as endangering its own interests. In this acceptance of informal limits, the status quo serves as a social contract that forbids basic challenges to the existing order, though this does not rule out efforts to nudge current arrangements slightly in one direction or the other. Nor does it avert a growing battle between the Orthodox religious establishment and non-Orthodox religious movements struggling to achieve equal rights and legitimacy under the law.

The ethnic division between Jew and Arab poses a more basic challenge to Israel as a Jewish state. The place of the Arab minority in Israel—which composes about 20 percent of the population—is

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quite different from that of any part of the Jewish population. While Israeli Arabs enjoy the formal rights of citizenship, including the right to vote, and otherwise have access to the political system, they stand outside the sphere of traditional Jewish politics. There has been no meaningful power sharing with the Arab community and, despite great absolute progress made by Israeli Arabs since 1948, no proportionate distribution of economic gains, government services, or other public goods. Until recently

there was no independent nationwide Arab political party or organization dedicated to the vigorous pursuit of Arab rights within the Israeli political system and that spoke credibly for the Arab community. In short, in the bargaining process that characterizes Israeli politics, there has been no Arab negotiating partner.

Israeli Arabs are not yet partners in the political system, but if present trends continue the power-sharing patterns of Jewish politics could come to encompass the non-Jewish population. From an initial situation that saw overwhelming suspicion and de facto domination on one side and overwhelming alienation and demoralization on the other, the overall trend has been toward gradual, if halting and incomplete, liberalization. The passage of discriminatory laws (though not their application) ended in the early 1950s. The military government in Arab areas and most related "security zones" were phased out by the early 1970s. The expropriation of land, beyond legitimate public need, came virtually to a halt after 1976. Laws and procedures were regularized over time; by the 1980s little use was made of

emergency regulations in the Arab sector. By the early 1990s there was visible representation of Arabs in some fields of public life, especially health, education, police, media, arts, and the Histadrut (the Israel General Federation of Labor). Though the new Labor-led government in 1992 did not take Arab parties into the coalition, it was more active in the Arab sector than its predecessors. Committed to closing the disparity in allocations to local governments, Labor increased the budgets in the Arab and Druze sectors almost threefold by 1994.

Critics argue that Israel cannot be both Jewish and democratic if it has a large Arab minority; either it must shed its Jewishness in order to remain democratic, or it must exclude or expel Arabs to remain Jewish. Posing this as a stark either/or choice, however, ignores the reality that all nation-states, democratic or not, must in some fashion balance the demands of cultural, ethnic, and historical particularity against universalistic precepts of governance and justice.

THE WEST BANK AND GAZA

Between 1948 and 1967, the basic question of integration with or separation from Palestinian Arabs was dormant in Israeli politics. The armistice lines created at the end of the 1948 war acquired legitimacy and permanence as borders separating Israel from the Arab world. But the 1967 war revived the pre-1948 debate by extending Israeli control to the West Bank, the Gaza Strip, the Sinai Peninsula, and the Golan Heights. Old divisions and claims were reopened; once again those who favored a largely homogeneous Jewish state in part of Palestine contended with those who promoted a Jewish presence in and claim to an undivided Palestine with a large Arab population. Lack of clear consensus on an underlying conception was bridged by unspoken agreement to live indefinitely with a "temporary" military occupation that presumably did not prejudice the final resolution of the political issue.

But as occupation stretched into decades, did options really remain open? As time passed and patterns hardened, a fusion of Israel and the territories was taking place. This posed a dilemma: if West Bank and Gazan Palestinians were not to be integrated politically into Israel with full civil rights—a solution favored by very few on either side—how could such a system remain stable over time? Those who favored permanent Israeli control offered two answers: a functional Jordanian link for Arab residents of the territories, or some form of autonomy.

But neither proved to be a workable basis for a solution. Consequently, Israel began to disentangle its system of control, attempting to remove itself from the role of occupier of a hostile population without sacrificing its essential security. By the early 1990s there was a mobilizable majority of the Jewish Israeli public behind the idea of negotiated disengagement from the occupied territories. Ideas that were once rejected out of hand—negotiation with the Palestine Liberation Organization (PLO) and creation of a Palestinian state—were now on the public agenda.

The 1993 Declaration of Principles between Israel and the PLO (the Oslo accords) marked the "re-Palestinization" of the conflict; Israel reestablished the border that had been blurred since 1967, recognized the Arabs within historic Palestine as its major negotiating partner, and reduced the role of external Arab states in the conflict. Support for the peace process within Israel fluctuated significantly in response to the ups and downs of the process itself and waves of suicide bombings by Islamist extremists who sought to derail the process. Each bloody attack on Israeli civilians caused a dip in support for the negotiations. Nevertheless, a strong and growing majority continued in principle to support talks with the PLO, the return of territories, and the peace process in general. Strikingly, the vast majority of Israelis—74 percent by 1994—had come to believe that a Palestinian state would in fact be established, whether it was their preference or not.

As the Israeli army moved out of Arab population centers following the interim agreement of 1995, it seemed unlikely that it would move back in, barring a total breakdown of law and order that spilled across Israel's frontiers. Public figures began stating openly that self-rule for the West Bank and Gaza would lead to eventual Palestinian statehood. After flirting with other ideas, the Israeli public had returned to the conventional wisdom that good fences make good neighbors.

TWO ISRAELS?

The Israeli elections of May 29, 1996, underlined, in a way previous elections had not, the continuing struggle between two different Israels. Since 1977 the body politic had been roughly divided into two halves, the combined left and radical/Arab blocs and the congruent right and religious blocs. In 1996 voters could for the first time vote separately for prime minister, and the race between Labor's Shimon Peres and Likud's Benjamin Netanyahu forced them to identify with one of the

two Israels. Netanyahu's narrow victory (he received 50.5 percent of the vote to Peres's 49.5 percent) provided a clear if momentary measure of the continuing division between a traditional Israel, looking distrustfully on the prospects of becoming "a nation like other nations," and a civic Israel that fervently pushes the normalization of Israel's domestic arrangements and foreign relations.

The campaign was marked by sharp polarization as traditional Israel mobilized behind Netanyahu and civic Israel rallied to Peres. Religious and ultra-orthodox leaders and parties came together behind Netanyahu despite his personal irreligiosity; leftists and Arab voters gave Peres overwhelming support despite their dislike of his "Grapes of Wrath" military action in Lebanon just before the election. The flavor of the campaign reflected not just opposed views of the Oslo peace accords, but opposed lifestyles: on the one hand, appeals to tradition, attacks on pop culture and "yuppies," and the slogan that "Netanyahu is good for the Jews"; on the other hand, the argument of economic prosperity, the vision of Israel's integration into the Middle East, and the call for an Israel that would be "the state of all its citizens."

Israel still struggles between its calling as "a people that shall dwell alone" and the desire to become a "normal" nation integrated into the modern world. Traditional Israel is more particularist, communitarian, religious, conservative, and hawkish, while civic Israel—the "New Israel" created in the century since Herzl—is more universalist, modernist, secular, liberal, and dovish. Traditional Israel conceives of collective identity in terms of ethnicity ("Jewishness"); civic Israel tends to define identity in terms of territoriality ("Israeliness").

Despite the reassertion of tradition, civic Israel will not fade away; the country cannot escape being part of an increasingly interdependent and technologically oriented world. In Israel as elsewhere, modernization involves challenges to tradition, the decline of ideology, and convergence with other societies. Some describe contemporary Israel as "post-Zionist," though the term has been used in so many contexts—as loss of ideology, as critique of Zionist historiography, as attack on pop culture, as

argument for a nonethnic state—that it has no agreed meaning.

Conversely, Israel cannot cut its ties to Jewish tradition. Without Jewish tradition, what would it have of its own? Of what, minimally, does the "Jewishness" of the Jewish state consist? The Israeli supreme court, in dealing with the eligibility of parties to participate in elections, has tried to answer that question. Acceptance of "Israel as a Jewish state," the court has ruled, means at the least: 1) maintenance of a Jewish majority; 2) the right of Jews to immigrate (the Law of Return); and 3) ties with Jewish communities outside Israel. None of these features is inherently inconsistent with liberal democracy, and none is unique to Israel.

As for non-Jews in Israel, pluralism may mean maintaining and even entrenching the distinction between "Israeli" and "Jewish." Is it possible to develop an Israeliness that includes, but is not limited to, Jewishness? Can Palestinian citizens become "Israelis" on at least one level? No nation-state is entirely neutral in matters of particular ethnicity or culture, but the acid test of Israeli democracy will be whether it can take Arab citizens into full partnership. This should not be impossible. The genius of Jewish politics has been its power sharing, which proceeds from a clear recognition of the permanence and legitimacy of diversity within society. In the Jewish context it has functioned reasonably well. It has enabled the ultraorthodox community in Israel, for example, to become increasingly involved in the system even while questioning some of its basic premises.

Successful accommodation of Arab citizens within a Jewish Israel clearly assumes a divorce between this dilemma and broader Israeli-Palestinian and Israeli-Arab issues, if not an overall resolution of the broader conflict. Separation of Israel from the West Bank and Gaza is a process begun but not concluded, and even when concluded considerable intertwining will remain. But good Zionist principles would indicate that only independent nation-states, interacting as equals, can hope to achieve relative stability. The dilemma of politics in Israel today is that the current situation cannot be reversed and can hardly be advanced, but also cannot be left as it is. In the end it will have to advance. ■

"Before the [November 1997] Luxor attack, Egypt's political leaders apparently believed that they were about to emerge from what had been a five-year struggle to contain radical political Islam and lay the foundations for more rapid economic growth. The leadership undoubtedly appreciates the economic and political costs of heavy-handed repression... and would like to restore at least the facade of political liberalization."

Egypt: Repression's Toll

ROBERT SPRINGBORG

Since an Islamist-inspired insurrection began in 1992, the Egyptian government has confronted two major challenges: containing the insurrection and addressing the economic causes underlying it.

By the summer of 1997, considerable success had been achieved on both fronts. The government appeared to have gained the upper hand against Islamist extremists. For more than a year, violence had been almost exclusively confined to the Upper Egypt governorates of Minya, Asyut, Qena, and Sohag; the number of incidents and casualties in each had fallen from several hundred annually to no more than about one incident and a handful of casualties per month. At the same time, the nature of violent incidents had changed from large-scale confrontations between Islamist activists and security forces in which numerous innocent bystanders were killed to isolated shoot-outs in remote areas between small detachments of activists.

Most important, the relentless pressure on Islamist extremists split their ranks in the summer of 1997. Imprisoned leaders of the two major radical groups, Holy War Organization and the Islamic Group, issued statements in August, while on trial for allegedly trying to overthrow the government, in which they called for an end to violence and for negotiations with the government. Other leaders of the two groups living in exile immediately rejected this unilateral cease-fire, arguing that those in prison could not serve as spokesmen for either organization since they were susceptible to govern-

ment pressure. Sheikh Omar Abd al-Rahman, the spiritual leader of the Islamic Group, then put his weight behind those calling for accommodation from his own prison cell in the United States, where he is serving a lengthy sentence for his part in the 1993 World Trade Center bombing in New York City. As the spiral of conflict within the ranks of Islamists intensified, Minister of Interior Hassan al-Alfi proclaimed that their renunciation of violence was a clear sign that the Islamist radicals were all but defeated and that the government need not enter into negotiations, but should maintain pressure on them.

Alfi did not have the last word, however; on November 17, 1997, Islamist gunmen opened fire at a tourist site in the Upper Egypt city of Luxor, killing 58 foreign tourists and 4 Egyptians. Within 24 hours Alfi had been replaced by Habib al-Adli, a less politicized, more professional security specialist who immediately fired all top Ministry of Interior personnel. Early indications were that Adli would continue Alfi's hard line, but would probably eschew his predecessor's threatening language. Whether the horrific incident presages a general upsurge of violence, or will prove to be an aberration in the general downward trend, remains to be seen.

On the economic front, the last six years have seen considerable progress. The Islamist insurrection commenced just as the United States induced the Paris Club, the informal group of creditor nations, to agree to reward Egypt for its participation in the 1991 Persian Gulf War by forgiving about half its external debt of more than \$50 billion. Combined with an agreement with the IMF that committed Egypt to a series of macroeconomic stabilization measures, this debt relief and the infusion

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of capital made it possible for the government to begin to reduce the budget deficit, bring inflation under control, stabilize the currency, and start the long overdue restructuring of the economy—including the privatization of public sector companies, the reduction of various trade barriers, and the removal of many controls over the production and marketing of agricultural commodities.

At first this fairly strong economic medicine threatened to kill the patient: the economy stagnated, unemployment grew, inflation remained above 10 percent, and the restructuring program bogged down. But by 1996 the macroeconomic stabilization measures had begun to take effect, as indicated by the rapid accumulation of foreign currency reserves, which had reached a record \$20 billion by mid-1997; by a boom on the Cairo stock market; and by the reduction of the budget deficit to a scant 1 percent of GDP and of inflation to 6 percent, the lowest level in more than 25 years. Stabilization in turn paved the way for the acceleration of the almost stalled restructuring program, with the government announcing a substantial increase in the rate of privatization in the summer of 1997.

POLITICAL DECOMPRESSION

The Islamist challenge, combined with economic stagnation, had raised the level of political tension well beyond that previously experienced under President Hosni Mubarak. It is not surprising, therefore, that in 1996 the government, feeling that the worst of both crises was over, began to show signs of tentative relaxation, much as if it were testing to see whether a return to a more normal political life could be engineered. The appointment of a new government under Prime Minister Kamal al-Ganzuri at the beginning of 1996 was a sign that the pace of economic restructuring was to be hastened, if only because the preceding government of Atif Sidqi had clearly run out of ideas and momentum.

That signal was reaffirmed in July 1997 when, in a cabinet reshuffle, Yusuf Butrus Ghali, an advocate of speeding reform measures, was brought back into the cabinet and given the more significant economic portfolio. Shortly thereafter the government announced a string of privatizations of public sector companies. But it was political "decompression" that is probably of greater importance; while economic reform had been slowly proceeding, political reform had been put into reverse since the Gulf War. Confronted with the choice of combating the extremist threat either by crushing virtually all autonomous political activity, especially that with

any Islamic overtones, or by isolating extremism by encouraging moderates to participate in the political system, the government chose the former.

From mid-1992, the government relentlessly strove to discourage political participation. It renewed and extended the emergency decree put into effect in the wake of President Anwar Sadat's assassination in 1981; it purged the most vibrant arenas for political activity in the country—professional syndicates—and brought them under direct government scrutiny; it sought to impose harsh penalties on journalists to discourage them from engaging in investigative reporting; it conducted in November 1995 the least free and fair parliamentary elections of the Mubarak era, resulting in a reduction of opposition deputies to a tiny rump of little more than a dozen out of more than 450 members; it resorted increasingly to presidential decrees rather than to parliamentary legislation as the means for making law; it banned the Muslim Brotherhood, which had been operating with quasi-legal status since the Sadat era, and imprisoned much of its leadership; it ran local government council elections in April 1997, in which the ruling National Democratic Party won virtually all of the more than 40,000 contested positions; and, in general, it conveyed to Egyptians the unmistakable message that any and all political opposition would be considered practically traitorous.

Treatment accorded those even remotely connected (such as by kinship) to Islamist-inspired political violence has been draconian. When two years into the insurrection the government was unable to intimidate courts into convicting all insurgents brought to trial, a presidential decree transferred all "security" cases to military courts, which have sentenced those accused to death or lengthy prison terms, which do not follow normal judicial procedures, and from which no appeal is allowed. The commonly accepted figure for political prisoners now being held is approximately 20,000. Reports of torture and mistreatment of prisoners are routine. New high-security prisons have been built in remote desert areas specifically to house prisoners held on "security-related" matters. Even provisions of the emergency decree that permit imprisonment without charge or trial for six months are routinely violated, with prisoners held for longer periods or not released in the wake of court orders to that effect. The Ministry of Interior, which controls the notorious state security police and operates prisons, does not consider itself bound by court rulings.

The Kafkaesque conditions of President Gamal Abdel Nasser's rule between 1954 and 1970, which had been more or less undone during Sadat's tenure, were from 1992 steadily reinstated; the Mubarak regime considered itself in a life-and-death struggle against its enemies, the definition of which gradually expanded as the conflict intensified. It now appears that at least some of the architects of this policy have begun to consider modifying it, presumably because they recognize that it has made the government feared, but also hated, and because of success in combating extremist violence.

Several straws in the wind suggest that a tentative political decompression was under consideration before the Luxor attack, an event that may affect the pace and extent of the decompression. Although Minister of Interior Alfi appeared to categorically reject the appeal from Islamists for negotiations, some commentators interpreted his statements as leaving the door slightly ajar. The protracted discussion of the matter in the government-controlled media suggested that some elements within the political elite were indeed interested in signaling a positive response.

In the July cabinet reshuffle, the longest serving minister in Mubarak's Egypt, Amal Osman, was stripped of her portfolio of minister of social affairs. This innocuous-sounding position is in fact a key one for containing autonomous political activity, since all voluntary associations are controlled by the Ministry of Social Affairs under the notorious, Soviet-inspired Law 32 of 1964. Osman, who had steadfastly used her ministry to apply the full force of that law to control non-governmental organizations and political voluntarism more generally, is a symbol of the repressive side of the government. Her replacement, the non-controversial Mirvat al-Tilawi, may signal an intent to broaden the political space for such voluntarism.

Mubarak is also signaling that he is grooming his older son, Gamal, as his successor. Gamal is being portrayed as a progressive, cosmopolitan, liberally inclined financial expert, which is in keeping with the image the government is keen to portray: Egypt as a newly emerging market and center for business and finance in the Middle East and North Africa. Political repression tarnishes that image.

Possibly more important than what the government has done is what it has not done. It did not prevent the mouthpiece of the Islamist-inclined Labor Party, the twice weekly newspaper *al-Shab*, from relentlessly pursuing a campaign against Minister of

Interior Alfi. Despite alleging that Alfi had created a personal empire within the ministry from which he had benefited financially, and that he had engaged in influence peddling and corrupt real estate deals, the newspaper's editors and journalists have not, amazingly enough, ended up behind bars or been subject to large fines. Instead, they succeeded in forcing Alfi into court where, presumably, they can produce incriminating evidence they claim to have, some of which has already appeared in the newspaper.

In a similar vein, the government permitted a campaign to be waged in the opposition press against the authoritarian and widely disliked speaker of parliament, Fathi Surour, a campaign that was allowed to spill over into the pages of the government-controlled *al-Akhbar*. Given that both Alfi and Surour are considered hard-liners, criticism of whom had formerly been more or less taboo, it suggests that at least some elements in the elite were trying to curtail their influence, jettison them, or use criticism of them to signal a political opening.

Before the Luxor attack, Egypt's political leaders apparently believed that they were about to emerge from what had been a five-year struggle to contain radical political Islam and lay the foundations for more rapid economic growth. Whether they will now

postpone political decompression in response to that attack depends on whether it proves to be an isolated event or signals the renewal of more widespread violence. The leadership undoubtedly appreciates the economic and political costs of heavy-handed repression, especially to Egypt's foreign relations, and would like to restore at least the facade of political liberalization.

CREATING A "NORMAL" POLITICAL SPACE

But the path ahead, although clearer than it was at the height of the Islamist-led insurrection, is still far from being straightforward. Deep-seated domestic political issues, some of which involve important social concerns, polarize the population. At the same time, increased tension in the Middle East resulting from the election in May 1996 of Benjamin Netanyahu as Israel's prime minister, has placed serious strain not only on Egyptian-Israeli relations but, more important, on Egyptian-United States relations, thereby threatening Egypt's most important bilateral connection.

The key political issues are procedural and substantive. As regards procedure, long-term political

Egypt must permit an expansion of political participation that includes at least some Islamists.

stability, which can only come about through liberalization and, ultimately, democratization, requires the establishment of appropriate rules of the political game. The quasi-liberal rules that governed political contestation in the 1980s were torn up by the government in the 1990s as it violated both the spirit and the letter of the constitution in its struggle to contain political violence. An attempt to initiate political dialogue with the opposition in the summer of 1994 failed when the government refused to countenance the participation of the Muslim Brotherhood. Indeed, the issue of legal political participation by the Brotherhood, as well as other nonviolent Islamists, is at the core of the broader question of how and when the rules of the political game are to be rewritten.

To achieve political stability and ensure international respectability, Egypt must permit an expansion of political participation that includes at least some Islamists. The negotiations that will facilitate this inclusion are bound to be protracted and difficult. They have not yet begun; but the straws in the wind mentioned earlier may indicate that the government is contemplating once again an attempt at national dialogue. This would constitute a first step toward crafting rules that would at least allow political contestation to emerge from the essentially illegal status that sharply circumscribes all political opposition activity.

But even if the government does commit itself to a program of accommodation and inclusion, a sustainable, participatory political order is unlikely to emerge before the end of the century. The level of distrust and hostility between the government and opposition is such that confidence-building measures by both sides are a prerequisite for negotiations even to begin, much less come to fruition. Many of the important substantive issues with which the government is currently grappling cannot be completely resolved until the laws restricting political participation are relaxed.

The present government is not representative, hence it lacks the legitimacy to impose lasting solutions to issues of abiding social importance. It may, however, be able to resolve some of the more important economic issues simply because there appear to be no obvious alternatives to the path it is following. Like many other third world countries confronting economic globalization, Egypt seems to have no choice but to accept the standard orthodox reform as advocated by the World Bank and the IMF. Domestic arguments are now over the extent and pace of those reforms, not over the need for

reform itself. For reform to proceed much more rapidly, or to be reversed, major political changes would be required.

WOMEN, CHRISTIANS, AND ISLAM

Various social issues are more challenging. Most of the truly vexatious are concerned directly or indirectly with the extent to which Islam is to be relevant to social and economic life, as well as personal practices. Some of these issues involve international dimensions that complicate Egypt's foreign relations, to say nothing of rendering their resolution more difficult. Female circumcision is one such issue, for it pits much of the Muslim religious establishment against advocates of women's rights, who are backed by international human rights and other organizations. In the summer of 1997, for example, a Cairo court struck down a decree issued by the minister of health, Doctor Ismail Salam, that female circumcision could be conducted only in hospitals. The decree represented the government's attempt to find a compromise solution, which is the method it has typically used to defuse the most charged of these social issues. In the wake of this decision the issue of female circumcision has been opened once again and, given the climate of strict religious adherence that prevails, it will be difficult for the government to impose constraints on the practice, thereby making it vulnerable to international condemnation.

The economic role of women is another gender-related issue that the government essentially cannot resolve, with Islamic activists eager to restrict that role to the home and their opponents trying to encourage more women to join the formal labor force. The appropriate balance between religious and secular education is yet another area in which the government hopes to tread warily, for the spread of religious education, under the aegis of al-Azhar, Egypt's venerable Islamic university, and in the form of primary and secondary schools sponsored by it, is strongly encouraged by many parts of the population, especially in rural areas. While the government fears that it may be swelling the ranks of Islamists by permitting the rapid expansion of the Islamic educational system, it also knows that to oppose that expansion would open it to charges of being un- or even anti-Islamic. That many citizens contribute resources to build religious primary and secondary schools, which they do not do for secular ones, is another consideration for the cash-strapped government.

The issue that has the greatest potential to damage Egypt's international standing and important

bilateral ties is Muslim-Christian relations. Never have those relations been more frayed than at present. The rise of Islamist activism has been paralleled by an increase in Coptic Christian activism, which has ideological and organizational components that are in many respects the mirror image of those among Muslims, especially among youths. Islamist attacks on Christians (the first major attack occurred in June 1981) continue unabated, despite the general subsidence in violence perpetrated by Islamists. For this many Coptic Christians hold the government accountable, despite its undoubted efforts to apprehend and prosecute the perpetrators. But it is also fair to say that the government has bent over backward in an attempt to burnish its Islamic credentials by, for example, restricting the sale of alcohol and allowing sheikhs from al-Azhar to ban books. This policy of appeasement has been at the expense of Christians, who have had to endure the gradual encroachment of Islam into areas that formerly had been secularized. Moreover, according to many Christians, the government has systematically discriminated against them in public, civil service, military, and even university employment, forcing them to seek jobs in the private sector or to emigrate.

Although Pope Shenouda, the Coptic patriarch once imprisoned by Sadat, continues to defend the government and preach tolerance and mutual understanding, he is finding it increasingly difficult to convince his restive fellow Christians to turn the other cheek. This is especially the case with regard to Coptic Christians who have migrated to the West. In the United States, Canada, Australia, and elsewhere they have formed well-organized lobbies pressuring governments to defend Christian rights in Egypt. In the United States this lobby, apparently having made common cause with pro-Israeli pressure groups, has had considerable success in Congress, which in 1997 considered using some portion of America's \$2.3 billion annual assistance to Egypt to investigate alleged abuses against Christians and, if such abuses were found, threatening to reduce or terminate that assistance. The Egyptian government, finding itself caught between increasingly polarized Muslims and Christians and having generally sought to appease the former without unduly antagonizing the latter, now has to contend with an overseas lobby that has the ear of at least some members of the United States Congress. This

issue promises to become yet more difficult, although the general decrease in Islamist violence may enable the government to be more assertive in defending Christian rights.

FRAYED FOREIGN RELATIONS

The alleged abuse of the human rights of Coptic Christians is but one of several areas of increasing friction between Egypt and the United States. This friction is due largely to heightened tension in the region as a result of Israeli Prime Minister Netanyahu's belligerent approach to the Palestinians. Support for Palestinian President Yasir Arafat and that component of the Palestinian national movement he leads has been a cornerstone of Egyptian policy under three presidents, so there is no question of abandoning the Palestinian Authority to the not so tender mercies of the Netanyahu government. Support for it, however, earns Egypt the antipathy of those American senators and congresspeople who have thrown their weight behind the present Israeli government's policies. This antipathy has reached the point that the basic understanding between the United States, Israel, and Egypt, arrived at in 1979 at Camp David, is now threatened.

When considering foreign assistance in 1997, a subcommittee of the Senate Committee on Foreign Relations omitted the annual \$2.3 billion earmarked for Egypt; it was ultimately restored in the final version of the foreign aid bill, but only after it was reduced by \$50 million (to be given to Jordan) and after causing acute embarrassment to Egypt. During the debate over aid to Egypt—aid many congressional critics alleged was being wasted—the issue of human rights abuses, especially of Christians, was raised. It must be assumed that further attacks on foreign assistance to Egypt will be mounted in Congress in 1998, in part to pressure it to back away from support for the Palestinian Authority and to be more positive in its support for United States policy in the region more generally. This pressure will also arise partly out of a genuine belief by members of Congress that Egypt is not spending its foreign assistance wisely and that it is violating the human rights of its citizens. In Cairo, however, only the former motive is recognized as the compelling one.

Egypt, the first Arab state to make peace with Israel and the one that for the longest time has had to manage the possible contradiction inherent in maintain-

The issue that has the greatest potential to damage Egypt's international standing . . . is Muslim-Christian relations.

ing relations with Arab and Muslim states and the Palestinians on the one hand, and Israel and the United States on the other, thus confronts the task of retaining ties to the two sides as they drift further apart. In 1997 the usually cautious President Mubarak identified Egypt more closely with Arab states and the Palestinians than in the past, simultaneously distancing himself and his country from Israel. His normally careful rhetoric gave way to outspoken criticisms of Israeli closures of the West Bank and Gaza and other violations of the Oslo accords, while he permitted his foreign minister yet more scope in condemning Israel and in quietly but noticeably pursuing overtures from radical Arab states, including Libya and Iraq, and Iran. Throughout the year Mubarak intensified Egypt's coordination with Syria. Although the Clinton administration refrained from publicly taking issue with Egypt over these steps, many Egyptian decision makers believe that high-ranking officials in the administration supported and even encouraged the attacks launched in Congress. The belief that the CIA was behind the Luxor attack in order to "punish" Egypt for its increasingly independent stance in foreign affairs is widespread in the country.

The nadir of Egyptian-Israeli relations, as distinct from Egyptian-Palestinian-Israeli relations, was reached in September 1997 when, in the wake of the sentencing by a Cairo court of Azzam Azzam, an Israeli Druze, to 15 years imprisonment for allegedly spying, Prime Minister Netanyahu and members of his cabinet launched verbal attacks on President Mubarak for allowing this "travesty of justice" to occur. They explicitly denied any con-

nection between Israeli intelligence and the accused. Because Azzam was a businessman working in partnership with an Egyptian who was, incidentally, sentenced to 25 years in prison, the case took on additional complications. Many Israelis viewed the incident as the Egyptian leadership's devious response to deteriorating bilateral relations and its indirect way of sending a message to its own people and to Israelis not to do business together, thereby frustrating at least part of the intent of the peace process.

NO EASY TASK AHEAD

There is, then, good news and bad news in Egypt. The good news is that, despite the Luxor attack, the overall level of political violence has receded; that macroeconomic stabilization has been successful; that the pace of economic restructuring appears to be quickening; and that the government is beginning to feel sufficiently confident to consider undertaking a careful process of decompression. The bad news is that political repression over the past six years has been so thoroughgoing that it will take a long time to repair the damage to the body politic; that economic restructuring will not be easy and may not result in a significant lessening of unemployment in the foreseeable future; and that increasing tension in the region is militating against regional development generally and in Egypt specifically, as well as further complicating Egypt's relationship with the United States. Having almost emerged from the ordeal of confronting an Islamist insurrection, Egypt can hardly celebrate, for there are many other pressing tasks at hand. ■

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Misreading Iran

TAREK E. MASOUD

With the election in May of someone widely perceived as a moderate to the Islamic Republic's presidency, a growing chorus of academics, policymakers, and journalists—not to mention business-minded Europeans—is urging Washington to rethink its policy of "containing" Teheran. Mohammed Khatami's victory is seen as an ideal opportunity for the United States to set aside its long-standing animosity toward Iran and undertake a policy of rapprochement. It is also seen as a chance to gain access to Iran's considerable oil and gas deposits and to take advantage of its location as the most likely pipeline route for oil from Central Asia and the Caspian Sea. Sanctions, the critics note, are not working, and the United States policy of forbidding investment in Iran has hamstrung American businesses while allowing European firms to snare prized concessions and contracts. Iran is not only mellowing, but about to start booming, and opponents of the sanctions feel the United States is being left out. The proposed policy is to "engage" Iran by reopening diplomatic and commercial channels, clearing the way for its admission into the family of law-abiding nations. In the engagers' scenario, everybody wins.¹

But the signs emanating from Teheran paint a picture far less rosy. Although Khatami's election

and his appointment of a largely moderate cabinet may presage a softening of Iran's domestic political behavior, a similar shift should not be expected in its international behavior. Indeed, Iran's new minister of foreign affairs, Kamal Kharrazi declared in September that "Iran's foreign policy before and after the election of President Khatami, as far as the independence of our nation is concerned, remains the same and that continuity prevails."

Like the Westerner who mistakes an Iranian's "thumbs-up" for a sign of encouragement (it is actually an insult in Persia), commentators continue to see what they want to see, imparting to Khatami's election more promise than is warranted. Even President Bill Clinton has confessed to being intrigued by Iran's new leaders and used the occasion of Khatami's election as an opportunity to extend an olive branch to Teheran, declaring that the Iranians are "a very great people" with whom "estrangements can be bridged." But the "great people" were unimpressed, with Iranian officials insisting as always that the United States remove sanctions and release the \$11 billion in assets frozen since the 1979 Iran hostage crisis before any negotiations can begin. Continuity does indeed prevail.²

There is no doubt that the recent calls for engagement are based on a fundamental misreading of Iran, which is nothing new: Americans have been misreading Iran for decades. From the 1953 CIA-backed coup against democratically elected Prime Minister Mohammed Mossadegh (which later earned America the label "Great Satan") to President Jimmy Carter's toast of the shah's Iran as "an island of stability" only months before the ailing monarch's dramatic overthrow, to the ill-fated decision to allow the displaced shah into the United States for medical treatment (an event that resulted in the Iranian hostage crisis), the United States has

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¹See Zbigniew Brzezinski, Brent Scowcroft, and Richard Murphy, "Differentiated Containment," *Foreign Affairs*, May-June 1997; and Robin Wright and Shaul Bakhash, "The U.S. and Iran: An Offer They Can't Refuse?" *Foreign Policy*, Fall 1997.

²In 1995, President Clinton prohibited all commercial and financial transactions with Iran. This was followed by the Iran-Libya Sanctions Act of 1996, which imposes sanctions on foreign companies that make investments of more than \$40 million in the petroleum industry in Iran or Libya.

shown a remarkable knack for getting it wrong when it comes to Iran.

With the current drift of opinion in favor of engagement—read accommodation—there is a danger that the losing streak will continue. Conciliatory commentators believe that engagement will work because Iran has changed; it is liberalizing and democratizing. But although domestically Iran may be shedding its radical Islamic attire, its foreign policy, despite the rhetoric, was never Islamic to begin with and is based on calculations of its national interest that will not change. United States policy toward Iran must flow from an accurate reading of these interests, not from first impressions or dreams of easy oil and ready cash. Borrowing an expression from his adversaries, the American-educated Kharrazi challenged the United States to make its move: “The ball is in your court,” he said in September. Indeed it is. But if America is to get it right this time, it will have to play hardball.

A RATIONAL ROGUE

Because it is a member of a select group of “rogue” states, Iran occupies a special place in American foreign policy. Of the Big Four rogues—Iran, Iraq, Libya, and North Korea—Iran has been viewed with the most suspicion. Iraq and Libya are mere dictatorships, North Korea a petty dynasty and communist holdout. These are countries the United States can understand, even if it despises them. But Iran is more troublesome—it is an Islamic fundamentalist state, warlike and irrational. In their effort to make some sense of Iran, American policymakers have made much of the symbolism of the Islamic revolution. The burning of the American flag, Ayatollah Ruhollah Khomeini's shrill pronouncements against the “Great Satan,” and the death sentence against Salman Rushdie, author of *The Satanic Verses*, are all seen as part of Iran's radical Islamic challenge to Western civilization.

But Iran was never the pan-Islamic crusader state it was made out to be. Far from being monolithic in its commitment to fundamentalist Islam, the state the mullahs built has always been torn between the inheritance of the prophet Mohammed, progenitor of its clerics and founder of its faith, and the legacy of the shahs—from the Safavids and Qajars, who forged Persia into a modern nation-state, to the Pahlavis, who dubbed it Iran. Though its rhetoric is consistently “Islamic,” postrevolutionary Iran's foreign policy has always been more shah than Mohammed, guided by national interest rather than religious fervor. Examples abound: Iran pursues a

vigorous trade and diplomatic relationship with India, despite that country's protracted conflict with Muslim Kashmir; and in the bitter struggle in Nagorno-Karabakh, Iran has tilted toward Christian Armenia, whose lack of oil makes it less economically threatening than Muslim Azerbaijan. Khomeini himself divided his prostrations between Mecca and the temples of commerce, railing against the imperialism of the United States and the Soviet Union yet showing no similar disdain for doing business with them.

Indeed, throughout much of the 1980s, the United States was one of Iran's most significant trading partners, accounting for nearly 15 percent of its exports. When the Reagan administration banned all Iranian imports in October 1987 as a “direct result” of Iranian policy in the Iran-Iraq War, Iran simply turned to the “Lesser Satan,” signing an economic cooperation agreement with the Soviet Union. In the “Islamic Republic,” faith makes way for pragmatism, and religion serves the state—a philosophy enshrined in Khomeini's 1988 declaration that “our government has priority over all Islamic tenets, even over prayer, fasting, and the pilgrimage to Mecca.”

The engagers point to America's mischaracterization of Iran as an irrational rogue state as one of the main reasons why the present policy of containment must be repealed; Iran, they say, should not be treated like Saddam Hussein's Iraq, especially with Khatami in charge. While it is true that Iran has shown a growing strain of pragmatism in its foreign policy, Teheran remains a main supporter of terrorism—especially in Lebanon—and continues to seek weapons of mass destruction and advanced means of delivering them. The United States insists that Iran halt this conduct, as well as its hampering of the Arab-Israeli peace process, as a precondition to restoring normal relations; engagers think this is too harsh a stance, that Khatami can be convinced to moderate Iran's behavior without strong-arm tactics. But just as Iran has cast religious purity to the wind when deemed best for the country, so too are its policies toward terrorism and weapons born of its estimation of national interests—interests that cannot be expected to bend so easily.

Consider Iran's support of Hezbollah, the Lebanese Shiite guerrilla group. Modeled on an Iranian militia that bears the same name, Hezbollah is considered the protector of Lebanon's Shiites, to whom Iran has a long and enduring kinship. As Ayatollah Khomeini declared shortly after the rev-

olution, "We consider Lebanon to be a part of Iran because we are not separate from each other. We are as they and they are as us." The founder of Shiite militancy in Lebanon, Sayyid Musa al-Sadr, was Iranian, sent by the mullahs of Iran—before the revolution—to organize Lebanon's quiescent Shiites into a powerful political force. But Iran's support of Hezbollah is just part of its greater covenant with Shiites throughout the Arab world. Indeed, ever since 1501, when the Safavid dynasty declared Shiism Persia's state religion, all Shiites have been "persianized" by association, creating a unique protonationalist identity that was further strengthened by Iran's 1978 revolution. Oppressed or disenfranchised at home, Arab Shiites look to Iran as the powerful standard-bearer of their strain of Islam, the only country strong enough to thumb its nose at the West and the corrupt regimes of the Middle East.³ Iran supports Hezbollah—as well as separatist Shiites in Bahrain, Saudi Arabia, and Iraq—because their narratives are interwoven in the fabric of Middle Eastern history. Khatami could not change this even if he wanted to.

Similarly, Khatami and his government will not abandon Iran's quest for advanced weapons. Today's rulers believe, as did the shah, that the Persian Gulf is Iran's domain, and they guard it jealously; merely calling it the "Arabian" Gulf irks Iranian policy-makers to no end. Just as Reza Shah Pahlavi, who ruled from 1925 to 1941, bristled at British attempts to encroach on his territory (enlisting the patronage of the United States to help nudge them out) so does Iran's current leadership resent America's military presence in the region. As former Foreign Minister Ali Akbar Velayati put it, "Persian Gulf security is the sole responsibility of the states of the region. . . . It cannot be brought from outside."⁴ Khatami stated in May that his "most important foreign policy will be to distance the enemy from our region. That is, to see that the enemy's fleet leaves the region." To do this, he said, "we have to strengthen our defense forces. . . . This is necessary to back us and our foreign diplomacy."

Iran's current pursuit of advanced weapons is not a policy unique to the mullahs; Muhammad Reza Shah was one of the greatest connoisseurs of weaponry that the region has ever seen, purchasing

from the United States billions of dollars worth of military hardware during his 37-year rule. In October, in an announcement that would have made the shah proud, outgoing President Ali Akbar Hashemi Rafsanjani declared that Iran had developed missiles with a range of 156 miles. "Please pay attention to the figure of 156 miles," he said pointedly, almost warning American hegemonists that Iran's day is nigh. Hegemony over the gulf is an Iranian value, not an Islamic one, and the United States should be prepared to deal with an Iran that is intent on pursuing it.

Even if Khatami were willing to disregard age-old calculations of Iran's interests and alter its foreign policy to better suit the international community, he does not have ultimate authority over such matters. Unlike Ayatollah Khomeini, who was the *velayat-i-faqih* (guardian of Islamic jurisprudence) and Shadow of God on Earth, Khatami is merely the president; the current *velayat-i-faqih*, Ayatollah Khamenei, has the last word on matters temporal and spiritual. Indeed, during Khomeini's tenure the president was but a figurehead. While this has changed since Khomeini's death, the vehemently anti-American Khamenei, with a supporting cast of conservative mullahs, still holds considerable sway over Iran's foreign policy. And even if, as some argue, Khatami's landslide election victory gives him enough of a mandate to skirt Khamenei and company's conservative sensibilities, he is not likely to antagonize them. As one Western diplomat put it, "Why should he risk getting stabbed in the back when he'd get so little domestically?" But whether Khatami or Khamenei calls the shots when it comes to foreign affairs, the two policies with which the United States has the most trouble are the ones that can be least expected to change.

THE "NEW" IRAN

It is not hard to see why Khatami's election has generated so much enthusiasm in the West. It comes in the midst of the most vigorous and profound debate in the Islamic Republic's 19-year history. Theocracy is under attack not just from fringe elements and exiles, but from university professors, moderate clerics, and younger members of society, all of whom were fervid supporters of the 1978 revolution. The most vocal critic of Iran's theocratic system is the scholar Hosein Dabbagh, known by his pen name, Abdol Karim Soroush. Arguing that theocracy contradicts Islam's basic tenets by investing power in an elite—in this case the clerics—and that no *fatwa* (religious ruling) should be above

³See Fouad Ajami, *The Vanished Imam: Musa al Sadr and the Shia of Lebanon* (Ithaca, N.Y.: Cornell University Press, 1987).

⁴Interview with author, October 6, 1996, in Tarek E. Masoud, "Iran, Islam, and the New World Order," *Brown Journal of World Affairs*, vol. 4, no. 1.

criticism, Soroush has come under fire from Khamenei and Iran's hard-line religious establishment for essentially undermining the legitimacy of the velayat-i-faqih and challenging the clerics' monopoly over government.

It is not only lay intellectuals like Soroush who call for the separation of religion and politics; an increasing number of moderate clerics have been arguing for it as well, albeit out of different concerns. Islam in Iran, they fear, has been polluted by its association with politics, becoming no more than a state ideology like communism. Religion, the clerics believe, is eternal—guarded by God and upheld by his servants—but ideologies are human inventions, not invested with the durability of God's will and prone to bend and fall. They worry that, on its present course, Islam is destined for the fate that befell Marxism in Eastern Europe: discarded, discredited, and relegated to the dustbin of history. The clergy senses its rising unpopularity in Iranian life, and laments the fact that the abuses of the small minority of clergymen in power have tainted the reputation of the entire fraternity. Better to retreat from the realm of politics, they argue, than to suffer an ignominious defeat and the scorn of their fellow Iranians. Better to dismantle the velayat-i-faqih, or at least subject it to the dictates of popular will, than to lose the essence of Shiism, the soul of Islam. As has happened many times in Shiism's history, a growing number of clerics have no stomach for political life, preferring instead to retire to scholastic asceticism in Qom and Karbala and await the return of the hidden imam. Government should be left to the politicians.

It is not surprising, then, that observers of the Iranian scene might see Khatami's election as an affirmation of this new secular drift in Iranian political discourse. The moderate cleric even received the endorsement of Soroush himself, who declared that "the election was a referendum on liberty, justice, everything." Indeed, Khatami has been an eloquent spokesman for constitutional liberties in his decidedly illiberal country. In 1992, during his tenure as minister of culture, he drew the ire of the more conservative mullahs for his patronage of films such as the famed Persian director Mohsen Makhmalbaf's *Nights of Zandehrood* and *Time of Love*, which tackled such counterrevolutionary issues as adultery and suicide. Accused of permitting an "invasion" of immoral ideas from the West,

Khatami was unceremoniously removed from his post. During his presidential campaign, he lamented the fact that Iranians had not yet been able to "institutionalize criticism in our society," a thinly veiled reference to the suppression of speech critical of the Islamic regime. "I believe," Khatami declared, "that any publication which is allowed to publish within the framework of the law should be able to say what it has to say and to criticize." Sentiments such as these have endeared this student of de Tocqueville to the Iranian public and earned him the moniker "Ayatollah Gorbachev."

But unlike his Russian namesake, Khatami will not preside over the collapse of his country or a drastic redefinition of its political system. A loyal servant of the revolution, Khatami has tempered his calls for freedom of speech with the caveat that ideas that "negate the existence of the [Islamic] system do not have any rights in the system." This includes, obviously, calls for eliminating the velayat-i-faqih, which Khatami labels "the pivot of the system." Thus, while Soroush and fellow critics may see in Khatami a savior from the excesses of theocracy, they are seeing what they want to see. The heavy hand of the faqih may be lightened—thus satisfying the burdened masses—but the system will remain in place, upheld by men like Khatami who were made by it.

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Yet, while Khatami is no Gorbachev, he is no Stalin either. With his dual commitment to personal freedoms and the Islamic revolution, Khatami is a reformer, come to make Iran "more dynamic, stronger, and more stable." This may mean that the mullahs will be cajoled or forced into sharing their power with the technocrats, but there will be no deviation from the goal of the revolution; Iran's "independence from foreign domination"—a favorite phrase of Iran's diplomats that could have been spoken by the irreligious Mossadegh—will remain of paramount importance. Thus, the rise of Khatami may signal a change in Iran, but it is not the kind of change Americans are hoping for. With his calls for freedom of speech and the creation of a great Iranian political society, Ayatollah Gorbachev is the prophet of a new brand of nationalism in Iran, one that fuses an Islamic identity with an Iranian mission. No longer is the 1978 revolution a solely Islamic phenomenon, as Khomeini preached; it is an Iranian one as well. "The most tangible gains of our revolution," Khatami noted in

May, "are our independence, our national sovereignty, and our national interests." Khomeini's place in Iran's pantheon is not lost, but redefined. In this new nationalist narrative, the great son of Shiite Islam is recast as the father of the modern Iran, a legacy with which even he, the seasoned practitioner of *raison d'état*, might be well pleased.

IF NOT ENGAGEMENT, THEN WHAT?

The Islamic Republic may eventually discard the black turban of the mullahs, but its ideas of its place in the world will not change. Misattributing Teheran's prickliness to its religion, Americans have hoped that by shedding Islam, Iran would become more malleable. But this will not happen, for even a post-Islamic Iran will remain adamant about its interests. Religion can be deemphasized or abandoned, but the steel of Persian nationalism, forged in the fires of Shiism and Teheran's standoff against the West, will not soon yield to American pressure. The angry Islamic Republic, which thrashed about so ineloquently during its early years, may be waning, but the Iranian state, less bloody yet more attuned to its interests, is rising. Shouts of "God is great" become intermingled with shouts of "Iran is great," and both God and Iran want American gunboats out of the Persian Gulf.

It has been argued that American culture may in the end do what the threat of American military power cannot, that the Iranians have more reason to fear the whisperings of the Great Satan than his iron fists. There has been much in the newspapers of the mullahs' mad dash to ban satellite dishes that feed to their people the forbidden fruits of *Baywatch* and MTV. Love for American television has been taken as evidence of Iran's receptiveness to America's cultural persuasion. But this is a dangerous assumption. Pamela Lee Anderson is not the *Federalist Papers*, and MTV will never interest Iranians in reading them. American popular culture may trouble the dreams of Teheran's adolescents, but it will not so easily topple a nationalist revolution built on the blood of martyrs. Khatami knows this. American culture may mean, he notes, that "things we do not like will eventually come here," but they will not be able to erase Iran's national interests or undo what the shahs and mullahs have wrought.

It is clear that the United States needs a tough, consistent policy toward the Islamic Republic, but the current policy of containment, coupled with a vague offer to come to the negotiating table, has been called "all stick and no carrot." However, the alternative—reopening diplomatic channels,

unfreezing assets, and lifting sanctions—is all carrot and no stick, and the Iranians can only be expected to devour the carrot. What then, should the United States do?

First, the main assumption upon which engagement is based—that sanctions are not working and that they are not changing Iran's behavior—is wrong. How one can assume this and also argue that Khatami's election is a sign of moderation from Teheran defies logic, but aside from this, the sanctions are actually working. In 1996, inflation in Iran stood at 50 percent, and by all accounts unemployment is soaring (some estimates put it as high as 30 percent) as graduates of Iran's populous universities enter the workforce with job prospects dimmed by America's crippling of their economy. Iran's oil output has remained steady in recent years, but it is nowhere near the 6 million barrels per day of the shah's era, since finding non-United States purchasers for Iran's oil is difficult and expensive. Khatami's election had as much to do with economics as it did with individual rights; his campaign promises to cut inflation and end unemployment resonated better than his principal opponent's uninspiring pledge not to stray from Khomeini's course. Desperate to deliver on his promises, Khatami will try to increase foreign investment in Iran, but the threat of United States retaliation will likely deter most comers from doing business with Teheran.

Washington should not despair at the apparent lack of support in Paris and Bonn for its Iran policy. The Europeans are learning firsthand the difficulty of dealing with the Islamic Republic. Earlier this year a German court ruled that Iran's leaders had ordered the assassination of four Kurdish dissidents outside a Berlin nightclub in 1992. Questioning its "critical dialogue" with Teheran, Germany expelled four Iranian diplomats and recalled its own ambassador. In a show of support for Germany and disapproval of Iran's behavior, the other member states of the European Union—except Greece—followed suit. Now they want back in, but Iran insists on dictating the order in which the ambassadors return, with Germany coming in last as punishment for its bad behavior.

The United States can use such incidents to underscore to its European allies the intransigence that is at the heart of the Iranian regime, and the need to keep up the pressure. In September the EU quietly added to that pressure by banning all imports of Iranian pistachios—one of the country's main exports—on the flimsy pretense that recent ship-

ments of the nuts contained unacceptably high levels of certain carcinogenic substances. Episodes like these indicate that the distance between the United States and Europe on Iran is not unbridgeable.

The recent \$2 billion deal to develop Iran's Sirri oil fields, which went to a French-Russian-Malaysian consortium, has been billed as a dramatic failure for containment and an example of the wedge that isolating Iran has driven between the United States and its allies. But the more interesting story is that the Iranians first granted the concession to the American company Conoco. Observers have said that Teheran's initial decision to award the contract to Conoco was actually an olive branch to Washington. More likely, it was an Iranian admission of its need for access to American technical expertise and capital. Iran needs the United States more than the United States needs it. As former Minister of Finance Jahangir Amuzegar has pointed out, banned imports from America have been replaced with lower-quality substitutes or have been smuggled into Iran at inflated prices, and upgrading defense, industrial, and oil equipment, much of which is based on American technology, has been difficult, if not impossible. The United States is the world's greatest economic power, and a struggling state like Iran can little afford to be ignored by it, even if the French and Russians provide temporary relief.

In America's economic power, then, lies the card that will trump all others. If Iran is a country

guided by *raison d'état* and national interest, it will only change its unacceptable policies—sponsoring terrorism and pursuing weapons of mass destruction—if the costs of American isolation become too much for its fragile economy to bear. The United States must force Teheran to revise its calculations and balance its quest for regional hegemony with the pressing needs of development. Faced with massive unrest and economic malaise, Iran might be compelled to shake off its addiction to weapons and its predilection for terrorists if doing so will increase the flows of foreign capital into the country and help fix its broken economy. This will only happen if the United States maintains the pressure. Engagement will merely reinforce the hard-liners, and the United States will be seen as having given up in the face of superior Iranian resolve. When the United States does begin lifting its isolation of Iran, it will want to ensure that it does so only after the Iranians have renounced their mischief and indicated their willingness to abide by the norms and standards of the international community. Until then, the United States should increase the volume of its calls for open, unconditional negotiations so there is no confusion over where America stands, and wait for Iran to accept the terms. If Khatami wants what is best for his country, or if he is as moderate as the optimists think, he will eventually come around. Whether it is sooner or later, America can afford to wait. Iran, sadly, cannot. ■

BOOK REVIEWS

ON THE MIDDLE EAST

The Scourging of Iraq: Sanctions, Law, and Natural Justice

By Geoff Simons. New York: St. Martin's Press, 1996. 304 pp., \$45.

In the wake of the November crisis over the UN weapons inspection program in Iraq and the American media's pro-administration coverage of it, Geoff Simons' *The Scourging of Iraq* is a welcome attempt to make sense of United States–United Nations–Iraqi issues. The author's discussion of the Gulf War, the UN sanctions imposed on Iraq, and the plight of the Iraqi people is a fact-filled yet engaging analysis that clarifies issues often obscured by rhetoric from Saddam Hussein and the West alike.

Simons claims that United States–driven UN policy toward Iraq since the war has been as harsh as—if not harsher than—Hussein's own policies. In criticizing United States–UN policy, Simons intends not to play the game of demonization but instead create an understanding of the Iraqi people's dilemma: they are repressed domestically, unable to oust Saddam, and internationally, they are unable to be re-humanized or viewed empathetically by the West. Iraqis are simply powerless, Simons argues, and if they hate Americans, it is because Hussein's anti-American propaganda diverts attention from his political and economic failures. Also, the loss of 158,000 Iraqis—half of whom were women and children—in the Gulf War and its immediate aftermath (compared with 137 Americans) has left open wounds among Iraqis. (Official Iraqi casualties have never been released by the United States or Iraq; the estimate of 158,000 is by a United States Census Bureau demographer who, Simons points out, was almost fired for publishing her findings.)

Simons' central point is that United States–shaped UN sanctions have long ceased to be a means of punishing Hussein and have instead become a tool for "targeting the powerless," as he puts it. As early as 1993, for example, the UN Food and Agriculture Organization and World Food Program reported, to no avail, that the sanctions on Iraq were "pushing the bulk of the Iraqi population into destitution"—evidenced by growing poverty, hunger, and unemployment since 1991. Simons is infuriated by what he characterizes as the moral

hypocrisy of United States and UN policy toward Iraq, but he meticulously documents events surrounding the sanctions in order to let the hypocrisy speak for itself.

Simons' focus leads him not to address issues such as the question of how Iraqis can liberate themselves from Hussein and from the Western wrath he provokes. The book offers almost no discussion of Iraqis' efforts to change their state or protest Saddam's love of conflict. Simons is evidently convinced that the present power structure inside and outside Iraq is unshakable, and that only the West can alter it.

A scourged Iraq is an unpopular image, but Simons presents it lucidly and makes a convincing case for easing sanctions, which have been in place for eight years. Some may find his passionate attack on the legitimacy of the sanctions off-putting, but this should not distract from his central focus on their invidious impact.

Rachel Roberts

ALSO RECEIVED ON THE MIDDLE EAST

The Persian Gulf at the Millennium: Essays in Politics, Economy, Security, and Religion
Edited by Gary G. Sick and Lawrence G. Potter. New York: St. Martin's Press, 1997. 356 pp., \$35, cloth; \$18.95, paper.

Allies Divided: The Greater Middle East and Transatlantic Policies for the Greater Middle East

Edited by Robert D. Blackwill and Michael Stürmer. Cambridge: MIT Press, 1997. 325 pp., \$22.50, paper.

Political Islam: Revolution, Radicalism, or Reform?

Edited by John L. Esposito. Boulder, Colo.: Lynne Rienner Publishers, 1997. 281 pp., \$55, cloth; \$19.95, paper.

The Agony of Algeria

By Martin Stone. New York: Columbia University Press, 1997. 274 pp., \$45, cloth; \$16.50, paper.

Israel in the Nineties: Development and Conflict

Edited by Frederick A. Lazin and Gregory S. Mahler. Gainesville, Fla.: University Press of Florida, 1996. 264 pp., \$49.95.

The Arabs: Myth and Reality

By Gerald Butt. New York: I. B. Tauris, 1997. 330 pp., \$18.95, paper.

THE MONTH IN REVIEW

November 1997

INTERNATIONAL

Arms Control

Nov. 14—Under the auspices of the Organization of American States (OAS), 28 member countries sign an accord to work together against trafficking in illegal weapons; the accord is the 1st of its kind.

Asia Pacific Economic Cooperation

Nov. 25—APEC leaders conclude a 3-day annual summit in Vancouver, Canada; during the conference the leaders proposed market-opening initiatives, called on financially troubled Asian countries to tighten economic policies and fight corruption, and agreed to accept Russia, Vietnam, and Peru as new members in 1998.

European Union

Nov. 14—Teheran Radio reports that ambassadors from 11 EU countries have returned to Teheran and that the German and French ambassadors will follow later this month; the EU member nations withdrew their envoys after a court in Berlin ruled in April that Iran had ordered the 1992 killing in Berlin of 3 Iranian Kurdish leaders.

Iraq Crisis

Nov. 3—Iraqi President Saddam Hussein threatens to shoot down American U-2 spy planes searching for weapons programs prohibited by the UN Special Commission to disarm Iraq (Unscm) after the 1991 Persian Gulf War; Iraq has complained that Americans are over-represented in the disarmament mission.

Nov. 8—Thousands of anti-American protesters rally in Baghdad in support of Iraq's moves to block US members of the UN arms inspection team.

Nov. 12—The UN Security Council votes to impose an international travel ban on Iraqi officials who do not cooperate with Unscm.

Nov. 13—Iraq expels the 6 American members of the UN arms inspection team; Deputy Prime Minister Tariq Aziz calls for an end to the "dominant role" of Americans on the team.

Nov. 14—US President Bill Clinton dispatches a 2d aircraft carrier and 4 other ships to the Persian Gulf and warns Iraq that the US will act without its allies if American UN inspectors are not allowed back into the country; a fleet led by 1 carrier was deployed to the Gulf last month when Iran and Iraq violated a US-enforced no-flight zone in northern Iraq.

Nov. 20—After Russian Foreign Minister Yevgeny Primakov and Iraqi Deputy Prime Minister Aziz reach an undisclosed agreement, Hussein announces that Iraq will allow UN inspectors, including Americans, to resume weapons inspections tomorrow; members of the UN Security Council confirm the decision.

Nov. 28—Iraq bars UN weapons inspectors from its presidential palaces, intelligence headquarters, and military bases, where inspectors and US officials say Iraq hides a secret arsenal.

AFGHANISTAN

Nov. 18—The New York Times reports that UN officials are investigating allegations that as many as 2,000 Taliban fighters

taken prisoner by opposition forces were killed and buried in mass graves in northern Afghanistan last year.

Nov. 24—Leaders of the Taliban reach agreement with the UN Drug Control Program to uproot new poppy crops in parts of the country, destroy all heroin laboratories, and allow UN officials unlimited access in the country to ensure compliance; the UN agrees in return to oversee development programs in Afghanistan.

ALGERIA

Nov. 10—An attack on a village outside Algiers leaves 27 people dead; Islamic militants are believed responsible; 56 people in villages outside Algiers have died in several other attacks over the past 3 days.

BOSNIA AND HERZEGOVINA

Nov. 28—The New York Times reports that, according to Western and Bosnian officials, Iranian agents have infiltrated the American program to train the Muslim-Croat army and collaborated with a pro-Iranian faction of Bosnia's intelligence service.

BRAZIL

Nov. 10—The government announces an emergency package of tax hikes and spending cuts to reduce Brazil's budget deficit and bolster investor confidence in its currency; 3 days ago Brazil's stock market, feeling the effects of international financial turmoil, fell more than 6%.

BURMA

Nov. 25—The New York Times reports that earlier this month the State Law and Order Restoration Council, the military body that has ruled Burma since seizing power in 1988, changed its name to the State Peace and Development Council.

CHINA

Nov. 5—Bao Ge, a prominent pro-democracy activist released in June after 3 years in a labor camp, flies to New York for what he says will be a "brief foreign exile."

Nov. 16—Wei Jingsheng, perhaps China's most prominent dissident, arrives in the US after being released on medical parole from prison in China; Wei has been in prison most of the last 18 years after helping lead a pro-democracy movement in 1978 and 1979.

COLOMBIA

Nov. 25—Congress approves a bill lifting Colombia's 6-year-old ban on extraditions of drug traffickers and other criminals, but removes from the bill a provision that would have made the lifting of the ban retroactive.

CONGO

Nov. 18—The New York Times reports that the government has expelled some 2,000 Rwandan and Burundian refugees living along the country's eastern border.

Nov. 29—Soldiers loyal to President Laurent Kabila and predominantly Tutsi fighters demanding the release of Commander Anselme Masasu Nindanga continue fighting that began yesterday in Kinshasa and has left as many as 18 people dead; Masasu was recently passed over for a promotion to commander in chief, and the government has detained him for reasons related to "military discipline."

CUBA

Nov. 26—A lawyer for Walter Van der Veer says that his client, an American member of the militant Cuban exile group Comandos L, has been sentenced to 15 years in prison in Cuba for allegedly trying to overthrow the Cuban government.

CZECH REPUBLIC

Nov. 9—The *New York Times* reports that about 1,000 Roma (Gypsies) from the Czech Republic and Slovakia have fled to Britain in the last several months, saying they have suffered employment discrimination and feared attacks by skinheads.
Nov. 30—Prime Minister Vaclav Klaus resigns, his government tarnished by a scandal over a secret slush fund held by his Civic Democratic Party in a Swiss bank.

EGYPT

Nov. 17—At a tourist site in Luxor, outside of Cairo, 62 people, including 58 foreign tourists, are killed and another 25 wounded in an attack by 6 gunmen, who are later killed by police.
Nov. 18—Egyptian officials report that the Islamic Group, Egypt's largest militant Muslim organization, has taken responsibility for the Luxor attack, the group claims it intended to take tourists hostage to force the release of its leader, Sheikh Omar Abdel Rahman, who is serving a life sentence in the US for plotting to blow up the World Trade Center in New York City.

GERMANY

Nov. 13—The lower house of parliament overturns a 1950 provision barring regional authorities from refusing pension benefits to former Nazi soldiers convicted of war atrocities who reside in Germany; war criminals living abroad could already be denied such benefits.
Nov. 27—Tens of thousands of students march in Bonn to protest underfunding and overcrowding of universities; yesterday approximately 9,000 university students protested in Berlin.

HAITI

Nov. 28—The UN Security Council votes to extend for a year the mandate of a multinational police-monitoring force in Haiti, and to increase its size from 250 to 300 personnel; the UN peacekeeping mission in Haiti formally expires November 30, and the remaining 1,400 Pakistani and Canadian troops are expected to be withdrawn by December 20.

HUNGARY

Nov. 16—In a referendum, more than 85% of voters approve Hungary's entry into NATO; turnout is just 51%.

INDIA

Nov. 19—A car bomb kills 23 people and wounds 31 at a movie studio in Hyderabad, police say they suspect political rivals of movie producer Paritika Ravi, a legislator in Andhra Pradesh state and a former Maoist guerrilla.
Nov. 29—Prime Minister I. K. Gujral resigns after the Congress Party withdraws support for his 14-party coalition; the crisis began earlier this month when a judicial report linked some leaders of the Dravida Munnetra Kazhagam, a southern

regional party and coalition member, to the 1991 assassination of Congress Party leader and former Prime Minister Rajiv Gandhi; Congress leaders had threatened to topple the government if Gujral refused to oust the Dravida Party from the coalition.

Nov. 30—Two bombs explode in a market in Delhi, killing 3 people and wounding 62; there is no immediate claim of responsibility.

INDONESIA

Nov. 1—Singapore and Japan each pledge \$5 billion to bolster Indonesia's economy; yesterday the IMF offered \$10 billion in assistance, the World Bank \$4.5 billion, and the Asian Development Bank \$3.5 billion; Australia and Malaysia have each offered \$1 billion, and the US has pledged \$3 billion as a backup; Indonesia, whose currency has fallen 30% against the US dollar since July, also announced today that it would close 16 banks and fully repay 94% of their depositors.
Nov. 14—Government troops in Dili, East Timor, fire on student protesters, wounding 5; police say 4 soldiers were also wounded in the clash; student activists say 2 students were killed.

IRAN

Nov. 19—In Qum, thousands of protesters demonstrate outside the offices of Ayatollah Hussein Ali Montazeri, who recently criticized the legitimacy of rule by the Islamic clergy.
Nov. 26—Supreme leader Ayatollah Ali Khamenei announces that dissidents who have questioned his authority will be prosecuted; he also calls on Iranians not to protest against Montazeri.

IRAQ

Nov. 26—In New York, UNICEF issues a report documenting that 32% of Iraqi children under age 5 are malnourished, an increase of 71% since 1991; the report also says the situation has not improved with the food-for-oil program that began in December 1996, under which Iraq sells \$2 billion in oil in exchange for nonmilitary items every 6 months.

ISRAEL

Nov. 27—Prime Minister Benjamin Netanyahu proposes a partial troop withdrawal from the West Bank within 5 months if Palestinians "take adequate steps" to fight terrorism and immediately start peace talks.
Nov. 29—In Bethlehem, 40 people are wounded in fighting between about 300 Palestinian demonstrators and Israeli police; the demonstrators were demanding the release of Palestinian prisoners held by Israel.

ITALY

Nov. 1—Prime Minister Romano Prodi announces that trade unions have agreed to raise the minimum retirement age to 55 in 1999 and to 57 in 2002 (for workers with 35 years of pension contributions); Romano says the change will save \$2.4 billion in the 1998 budget and help Italy qualify for the single European currency in 1999; last month Prodi's government nearly collapsed when Communist members of parliament objected to pension and other cuts in his 1998 budget proposal.

JAPAN

Nov. 24—In the largest business failure in Japan since World War II, the Yamachi Securities Company, the country's 4th-largest brokerage, closes, leaving behind about \$24 billion in obligations to customers.

JORDAN

Nov. 5—Results from yesterday's elections show that pro-government independents have taken 62 of 80 seats in the lower house, Islamists who defied an Islamist opposition boycott of the election and opposition independents have taken the remaining seats.

KENYA

Nov. 26—President Daniel arap Moi lifts a ban on the pro-democracy opposition party Saffia and other parties, allowing them to field candidates in general elections scheduled for December 29.

KOREA, NORTH

Nov. 21—The government agrees to join South Korea, China, and the US in Geneva next month for peace talks to formally end the 1950–1953 Korean War.

KOREA, SOUTH

Nov. 7—President Kim Young Sam quits the New Korea Party, which he helped found; several of Kim's close aides and 1 of his sons were jailed recently for corruption; Lee Hoi Chang, the party's candidate in next year's presidential election, had demanded that Kim quit the party.

Nov. 19—Trade Minister Lim Chang Yeul is named finance minister after Kang Kyong Shik resigns the post; Kang and a top economic aide, Kim In Ho, reportedly resigned because of South Korea's currency turmoil.

Nov. 20—Trading is halted after South Korea's currency, the won, falls 10% against the dollar, the won had already fallen by 20% since the beginning of the year.

LEBANON

Nov. 23—Hezbollah guerrillas in Israel's self-declared security zone in southern Lebanon launch mortar attacks on Israeli forces, killing 9 Lebanese civilians and wounding 12; yesterday 4 Hezbollah guerrillas were killed in a skirmish with Israeli soldiers.

LIBYA

Nov. 7—The UN Security Council renews a 5-year-old ban on flights to Libya to pressure Libyan leader Colonel Muammar el-Qaddafi to extradite 2 suspects in the 1988 bombing of a Pan Am jet over Lockerbie, Scotland, that killed 270 people; Qaddafi has proposed holding a trial of the suspects in a neutral country other than the US or the UK.

MEXICO

Nov. 4—Gunmen in the southern state of Chiapas ambush a convoy carrying some 40 people, including Bishop Samuel Ruiz García, the chief mediator between the government and the Zapatista rebels in Chiapas, and another bishop; 3 passengers are wounded.

Nov. 10—A government labor board denies a request by workers at the Han Young automotive chassis factory in Tijuana to switch to an independent union, last month the workers voted to leave the government-controlled union, the case is widely seen as a test of Mexico's commitment to NAFTA provisions protecting workers' rights.

Nov. 20—Government troops take over the headquarters of the elite Zorros (Foxes) police unit in Mexico City; yesterday Zorros officers staged a revolt when army troops arrived at the headquarters to arrest 14 Zorros in connection with the torture and murder of 6 Mexico City youths in September; some 28

police officers and 3 top military officers are facing charges in the case.

Nov. 27—Gunmen in Tijuana ambush and wound newspaper editor Jesús Blancornelas and kill his bodyguard; 1 of the gunmen is also killed; Blancornelas's weekly, *Zeta*, has published a number of articles about narco-trafficking and corruption.

NIGERIA

Nov. 17—General Sani Abacha, the country's military leader, dissolves his cabinet and announces that he will release a number of political detainees.

PAKISTAN

Nov. 12—Gunmen in Karachi kill 4 American employees of a Texas-based petroleum company and their Pakistani driver; police believe the attack is related to the conviction yesterday in Virginia of Mir Amal Kansil, a Pakistani, for a 1993 shooting that killed 2 CIA employees and wounded 3 others outside CIA headquarters in Langley, Virginia; Kansil, who was captured in June by the FBI and Pakistani security forces, was taken to the US without an extradition hearing.

Nov. 13—A previously unknown group, the Amal Secret Committee, claims responsibility for yesterday's attack and threatens more violence if Kansil is sentenced to death.

Nov. 20—The army chief of staff, General Jehangir Karamat, and Prime Minister Nawaz Sharif overturn a cabinet decision to impeach President Farooq Ahmed Leghari; the impeachment move was prompted when Leghari declined to sign a measure giving Sharif legal protection; yesterday Sharif was indicted on charges of contempt of court for suggesting that the chief justice of the supreme court had overstepped his authority.

Nov. 27—The UN announces that Pakistan has agreed to allow it to afloat food from Peshawar, Pakistan, to central Afghanistan in circumvention of a blockade by that country's ruling Taliban militia (which fears that any food aid would fall into the hands of opposition factions); according to the World Food Program, 160,000 people in the region risk famine because of the blockade, crop failure, and natural conditions.

RUSSIA

Nov. 14—President Boris Yeltsin dismisses Aleksandr Kazakov as his deputy chief of staff; Kazakov is a coauthor with First Deputy Prime Minister Anatoli Chubais of a book on privatization for which the authors each received a \$90,000 advance from a company with ties to Oneksimbank; it is widely believed that the advances were made in an attempt by Oneksimbank to secure its winning bid for state shares it now owns in Russia's largest telecommunications company; another coauthor, Alfred Kokh, was dismissed as the government's privatization chief last month.

Nov. 15—Yeltsin dismisses 3 other officials, including Deputy Prime Minister Maksim Bolko, in connection with the book/Oneksimbank scandal; Chubais offers to resign, but Yeltsin refuses the offer.

SLOVENIA

Nov. 23—Early returns indicate that President Milan Kucan was elected today to a 2d 5-year term with about 56% of the vote; Kucan says he will pursue EU membership for Slovenia.

SRI LANKA

Nov. 8—The Liberation Tigers of Tamil Eelam, a rebel group waging civil war for an independent Tamil state, rejects a government power-sharing plan that would have increased minorities' power by establishing regional councils with

extensive authority over matters such as land, policing, and the negotiation of foreign financial assistance.

THAILAND

Nov. 3—Prime Minister Chavalit Yongchaiyudh resigns; recent political squabbling has hampered government efforts to address an economic crisis triggered by a currency devaluation in July.

Nov. 7—Chuan Leekpai, an opposition leader and former prime minister popular with business leaders, says he has created a coalition of 7 parties with enough votes in parliament to form a government.

Nov. 9—King Bhumibol formally names Chuan prime minister.

UNITED STATES

Nov. 4—President Bill Clinton imposes sanctions on Sudan for sponsoring terrorism and human rights abuses; the sanctions freeze Sudanese assets in the US and ban American bank loans to and trade with Sudan.

Nov. 10—Clinton announces that he has dropped Syria and Lebanon from the annual State Department list of drug-trafficking countries; the countries have begun a joint campaign to eradicate some 8,400 acres of opium poppy cultivation in Lebanon's Bekaa Valley.

Republican Party leaders announce that they are withdrawing a House bill sponsored by President Clinton that would have authorized the president to negotiate trade agreements that Congress could approve or disapprove but not amend; the move comes as Clinton concedes that the so-called fast-track legislation would likely be defeated in a congressional vote.

Nov. 17—The administration announces that it has invoked the 1996 Helms-Burton Act to punish executives of the BM Group,

an Israeli-owned citrus company, for doing business on land in Cuba expropriated from Americans; the act mandates penalties against foreign companies that invest in Cuban property confiscated from Americans after the 1959 Cuban revolution; the executives and their immediate families will be barred from entering the US unless they provide evidence they are not violating the law within 45 days of November 21.

Nov. 20—In Denver, Colorado, a skinhead shoots and wounds a police officer; the shooting is the 3d attack by skinheads in Denver in the last 2 weeks; the attacks have left 2 people dead, including a Mauritanian immigrant and a policeman.

Nov. 28—In Denver, 5 skinheads appear in court, charged with the beating of a 26-year-old black woman on October 27; in Grand Junction, Colorado, 3 skinheads were arrested on October 24 for the beating of a black man.

VIETNAM

Nov. 8—The *New York Times* reports that an employee of the accounting firm Ernst and Young recently leaked a report finding that working conditions at a Nike plant near Ho Chi Minh City are unsafe and illegal; the authors of the report found that workers in some parts of the factory were exposed to levels of carcinogens 177 times greater than local legal standards, that 77% of workers had respiratory problems, and that workers were forced to work 65 hours a week.

YUGOSLAVIA

Serbia

Nov. 27—Ethnic Albanian separatists attack a police station in Reznice, a village 60 miles west of Pristina, the capital of Kosovo province; 1 policeman and 1 attacker are reported killed in the ensuing battle.

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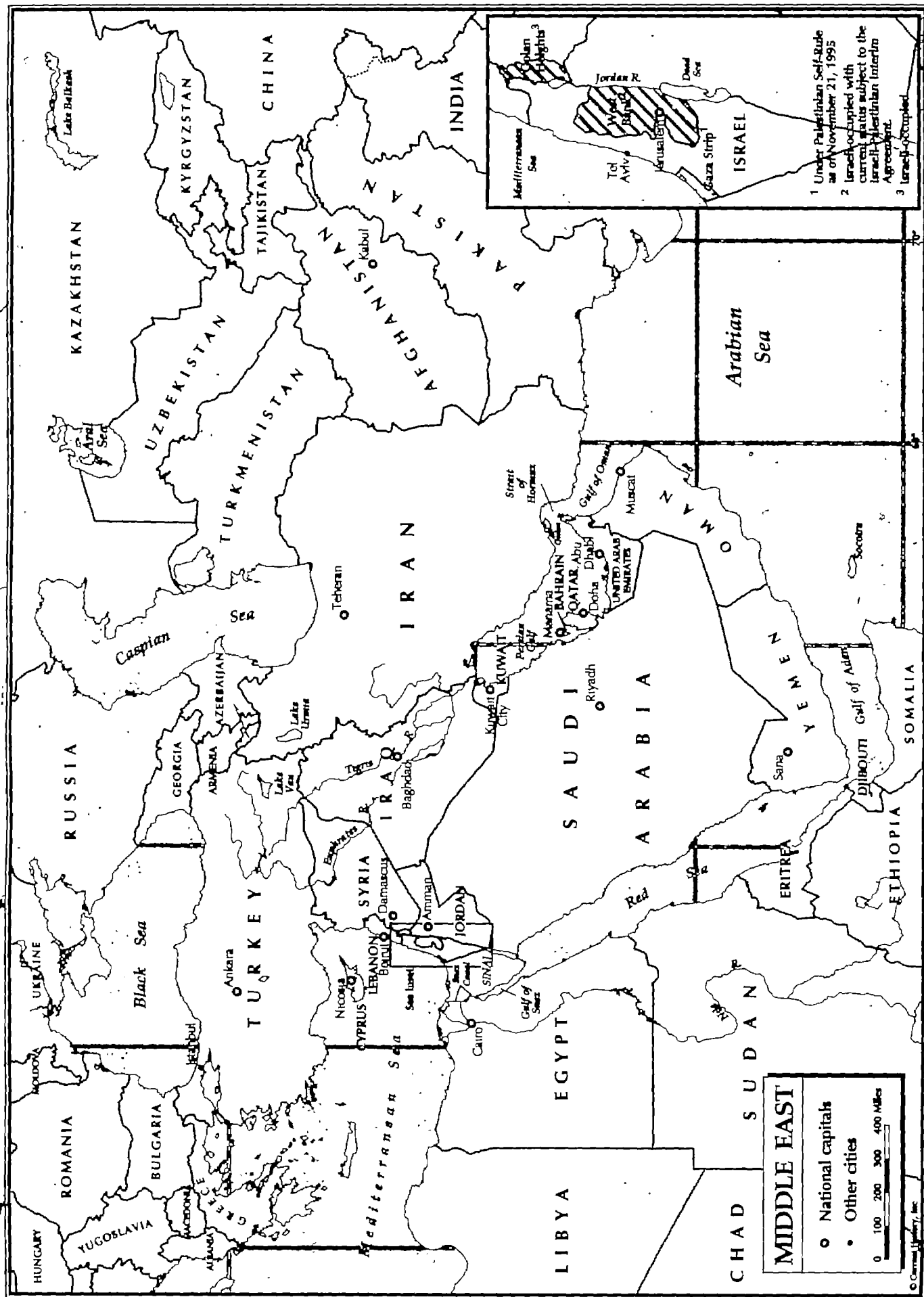
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3 Israeli-occupied

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China

- 17 - (1980-83) 19 - (1988-91)
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Canada

- 20 - (1980, '84, '88, '91)

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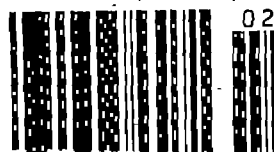
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CURRENT HISTORY

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The United States must show that it "is prepared to develop a serious and coherent hemispheric strategy that transcends often parochial, narrow interests. . . . Presidential visits are welcome, but they are no substitute for a willingness to spend political capital and exercise leadership to build a hemispheric partnership."

United States–Latin American Relations: Shunted to the Slow Track

MICHAEL SHIFTER

In a *New York Times* interview just weeks before the start of his second term, President Bill Clinton said that pursuing free trade agreements with Latin American countries would be among his highest priorities. The president seemed prepared to fight for, and likely secure, so-called fast track authority to negotiate trade agreements that Congress could vote up or down but not amend.

But in November 1997 Clinton became the first president since 1974 to be denied such authority. The administration's inability to obtain fast track from Congress represented Clinton's worst political defeat since the health care fiasco early on in his presidency. It marked a sharp setback for United States hemispheric—indeed, global—credibility and leadership.

Ironically, the defeat took place on the heels of presidential trips to Mexico, Costa Rica, and Barbados in May, and to Venezuela, Brazil, and Argentina in October. The trips were meant in part to demonstrate the importance and appeal of Latin America to a United States public largely indifferent to the region and anxious about the uncertainties of the global economy.

The politics of the fast track defeat reinforced a sense that United States policy toward Latin Amer-

ica was increasingly driven and dominated by domestic interests and constituencies. Labor unions, led by the AFL-CIO, were instrumental in opposing the fast track proposal. Though Clinton, a Democrat, had ample Republican support, he was unable to muster more than one-fifth of his own party's votes in the House of Representatives.

If any element of hemispheric policy had broad purpose that transcended domestic politics and seemed to enjoy some measure of consensus in both the United States and Latin America it was, presumably, trade. Yet the fast track disappointment revealed that this issue could easily fall victim to political obstructionism and infighting. In this light, fashioning coherent United States policy toward the region appears increasingly problematic. Tellingly, in another extensive *Times* interview in December 1997, Clinton neglected to mention free trade, or any other hemispheric goal, as part of his agenda for the remaining years of his presidency.

A MOMENT NOT SEIZED

Although relations between the United States and Latin America have improved since the 1980s, the potential for more productive engagement in the post-cold war period has not been realized. On the trade issue—the centerpiece of the relationship—the Clinton administration has failed to develop a focused and sustained strategy, partly because of ambivalence about the issue's politics and the schisms it might accentuate within the

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Democratic Party. Further, as illustrated by the president's trips to the region, the administration has dealt with trade in very different ways, depending on the country or subregion. Other key issues such as immigration, narcotics, and security have readily yielded to the appetites of various bureaucratic interests and political constituencies. The administration has treated issues individually and in a mostly ad hoc fashion, without considering their connections to other policies.

A review of recent United States–Latin American relations underlines what is well known and has long been the case: that domestic interests exert a powerful influence on foreign policy and that incoherence is more the norm than the exception.

Why does United States policy toward Latin America appear more fragmented and susceptible to domestic constituencies than in the past—and why is it more apparent in this area than in American policy toward Asia or Africa? The difference stems from the imperatives of geography, history, and culture, which are increasingly manifested politically. While this tendency may have the virtue of making policymaking more democratic and participatory, it can also produce ineffective and counterproductive results. Many Latin Americans are puzzled about precisely what the United States is up to, especially when it has an unprecedented opportunity for a more productive relationship.

For example, the United States has for years espoused the virtues of economic reform—including trade liberalization and privatization—as the basis for prosperity. In the 1990s, with nearly every Latin American government embracing the reform recipe, it seemed likely that trade would become the defining motif of hemispheric policy.

Building on President George Bush's 1990 Enterprise for the Americas Initiative, which called for a hemisphere-wide free trade system, President Clinton—in what some regard as among the greatest achievements of his presidency—received congressional approval in 1993 for the North American Free Trade Agreement (NAFTA) that had been negotiated a year earlier. And a year later, at the Summit of the Americas gathering of hemispheric leaders in Miami, the United States, Canada, and Mexico announced that they would soon make Chile a fourth NAFTA member. The most important news coming out of the summit was a hemisphere-wide

agreement to complete negotiations for a Free Trade Area of the Americas (FTAA) by 2005.

The fast track disappointment raises serious questions about the reliability of the United States as a hemispheric partner. To paraphrase *Foreign Policy* editor Moises Naim's commentary following President Clinton's withdrawal of the bill, the "Washington consensus" on key economic tenets seemed to have taken hold throughout the hemisphere—with the possible exception of Washington. The setback has led policymakers and summit organizers to reconsider what can be fruitfully discussed at this April's assembly of the hemisphere's heads of state in Santiago, Chile.

Even before the fast track defeat there were signs that the administration's push for a pro-trade hemispheric policy was in trouble. On several occasions Congress had voted down Clinton administration-backed Caribbean Basin Initiative enhancement legislation that would have given favorable treatment to the small Central American and Caribbean countries most affected by NAFTA. With development assistance levels plummeting and trade measures thwarted, a Central American official quipped that at least the United States had delivered on half its new policy of "trade, not aid."

The consequences of the fast track setback for United States–Latin American relations were chiefly psychological and symbolic. The decision affected United States credibility in the hemisphere by sending a signal that the president was unable to deliver on fundamental commitments about free trade. At the same time, political problems notwithstanding, the unrelenting forces of trade, technology, and private capital continue to drive hemispheric countries toward greater integration.

Latin America is the fastest growing region in the world for United States exports. By the first decade of the next century, it is expected to be the world's primary market for American products and services, exceeding Europe and Japan combined. Mexico already rivals the Japanese market. United States exports to Brazil totaled some \$13 billion in 1996, roughly two and a half times the 1990 figure and more than the \$10 billion in 1996 American exports to China. The United States sells more to Central America than to Eastern Europe and the former Soviet Union together. Further, cumulative foreign direct investment flows from the United States to Latin America from 1990 to 1995 reached

*The fast track
disappointment raises
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hemispheric partner.*

nearly \$66 billion, roughly 58 percent of the region's total foreign investment. This year total direct foreign investment is expected to be about \$30 billion, with the United States again contributing approximately half.

Intraregional trade has also expanded dramatically. Apart from NAFTA, the most significant subregional trade pact is Mercosur, the Common Market of the South that was set up in 1991 by Brazil, Argentina, Uruguay, and Paraguay, with Bolivia and Chile as associate members. With a combined current GDP of approximately \$1 trillion, Mercosur has started to negotiate free trade agreements with the Andean Community (Bolivia, Colombia, Ecuador, Peru, and Venezuela) and the European Union. On this score Central America has been similarly vigorous: both trade within the region and exports are growing at nearly 25 percent per year.

DIFFERENT AGENDAS

If the strength and quality of United States-Latin American relations could be judged by the number of meetings that take place, then it would be easy to argue that the relationship has never been better. The summit process, and heightened post-cold war regional and subregional activity, have resulted in an unprecedented proliferation of inter-American contacts. Much of this has been spurred by a move toward market economics, trade liberalization, and financial integration, and reinforced by a political setting of reduced tensions and the spread of democratically elected governments.

Clinton's two trips to the region in 1997 exemplified this welcome shift. Yet the visits also highlighted the vastly different policy priorities posed by two subregions that render any general reference to the "Latin American agenda" problematic. Even on trade, which is important to all the countries Clinton visited, the focus of the discussions varied appreciably. In Mexico, the main concern related to problems associated with the implementation of NAFTA; the Central American and Caribbean countries pressed for concessional trade support from the United States to help offset the diversion of investment to Mexico; and Brazil and Argentina, after receiving mixed signals from American officials, were anxious for clarity from the president on policy toward Mercosur. It would be difficult to discern a common thread on even the most positive, consensual item on the United States-Latin American agenda.

Trade aside, the agenda consists of an array of problems that are to a considerable extent specific

to certain countries or subregions, and that are seldom viewed by United States officials in relation to one another. Propinquity, for example, made immigration a central concern on Clinton's visit to Mexico, Central America, and the Caribbean—but completely irrelevant to the South American trip. America's closest neighbors are irritated about the relatively harsh, more restrictive immigration legislation adopted in 1996 in response to mounting political pressures. Partly as a result of such legislation and partly because of improved enforcement, the United States has deported a record number of Mexicans, Central Americans, and Caribbeans. During Clinton's visit, Mexican officials also expressed concern about welfare reform measures that deprived their nationals in the United States of key benefits.

Though the harshest features of the welfare reform legislation as it relates to immigrants were remedied and softened last year, the issue of immigration remains enormously sensitive as the subregion's governments press for greater humanitarian consideration (on the grounds, for example, of keeping families together) and, at the least, better bureaucratic coordination and communication. Most striking is that the new United States immigration policy was apparently devised without any serious regard for its foreign policy implications—for example, how the legislation's probable results of increased deportations and reduced remittances might affect key United States policy objectives of supporting economic development, social progress, and democratic consolidation in postwar El Salvador, Guatemala, and Nicaragua. There is little evidence that such questions were even raised before the new immigration legislation was adopted.

SECURITY DILEMMAS

United States officials also failed to adequately consider Latin American sensibilities in security policy. Two critical decisions were made last year. In early August, the Clinton administration decided to lift a two-decade ban on sales of advanced weapons to Latin America. Proponents stressed that because Latin America was now a democratic region, the justification for the original ban no longer applied. American arms manufacturers also weighed in against the ban, pressuring Congress and the administration. They argued that because governments in the region were getting what they wanted from any number of dealers in the competitive arms market, American companies—and workers—should benefit. Critics, led by Oscar

Arias, the former Costa Rican president and Nobel Peace Prize winner, raised questions about the consequences for regional peace and stability.

Whatever its merits, the end to the ban provoked a tepid response at best in South America. Argentina, perhaps the United States strongest ally in the region, criticized the decision; it was concerned about keeping its military's demands in check. Brazil was ambivalent on similar grounds. Even Chile, which had announced plans for major purchases of military hardware and presumably stood to benefit most from the decision, deeply resented statements by United States officials that it had lobbied for the change.

The second security-related decision—Washington's proposal to make Argentina a non-NATO ally—was taken three weeks after the ban on arms sales was lifted. This, however, did more to aggravate than alleviate Latin American anxieties about United States designs. The designation, which was made in recognition of Argentina's close collaboration with the United States and active participation in various peacekeeping operations, was also an attempt to mollify Argentine concerns about a possible arms buildup in Chile.

Instead, the announcement backfired, rekindling longstanding suspicions among Chile, Argentina, and Brazil; it especially vexed Chileans, who bristled at the strategic cold war overlay of the non-NATO category. The two security-related decisions did little to build confidence between the United States and Latin America in anticipation of the April 1998 summit, which was to be hosted, after all, by Chile.

THE CERTIFICATION "CIRCUS"

The issue of narcotics was at the top of Clinton's agenda on his first Latin American visit (although it barely came up on the second). For the United States, the issue is of paramount importance in its relationship with Mexico since an estimated 70 percent of the cocaine that enters the United States passes through Mexico. Narcotics also figured prominently in Clinton's meetings in Central America and the Caribbean, where drug-related activities—trafficking, money laundering, and consumption—are reportedly on the rise.

Few United States policies have irritated Latin Americans as much as its approach toward illicit

narcotics. The largely unilateral, punitive, counter-productive strategy had long failed to acknowledge properly the overwhelming demand and consumption of drugs in the United States—as well as the disproportionate costs, human and financial, borne by Latin Americans. Perhaps most offensive has been the 1986 law Congress passed requiring the "certification" of certain countries each year for their cooperation with the United States in combating drugs. "Decertified" countries are subject to sanctions and denied foreign assistance and United States votes for loans at international financial institutions. Washington analysts from across the political spectrum have aptly characterized this process as a "circus."¹

In 1996 and 1997, the United States decertified Colombia, a democratic, historically friendly country. Colombian President Ernesto Samper's United States visa was also revoked because he was accused of having received drug money from the Cali cartel during his 1994 election campaign. The congressional debate in early 1997 about the possible decertification of Mexico, whose own drug czar was found to be corrupt, touched a raw nerve in Mexico and revived suspicions and resentment in both countries. Though in the end Mexico was not decertified, the episode revealed the inconsistency, indeed the absurdity, of the policy.

In addition, few United States policies have been as conditioned by domestic politics and bureaucratic and turf battles as its narcotics strategy. Pressures to "get tough" with producers and traffickers in the region, and protect "our children" from drugs, inevitably intensify as elections near. Hard-line approaches often yield political rewards.

Still, for a variety of reasons, there is growing recognition within the United States policy community that the certification process is not working. The drug problem remains, and Colombia—the policy's principal target in the hemisphere—is deteriorating substantially, with an increasingly critical security and human rights situation involving various configurations of guerrilla groups, paramilitary organizations, the armed forces, and drug traffickers. The current approach certainly has not caused the crisis, but it has contributed to it by significantly weakening the ability of Colombia's legitimate government to maintain order. It also strains cooperation with other hemispheric governments on a range of key issues.

Signs of a change in thinking can be discerned. One of the most noteworthy statements of Clinton's Mexico visit, for example, was his public acknowl-

¹See Mark Falcoff, "Time to End the Certification Circus," *Latin American Outlook*, April 1997, and Coletta Youngers, "De Nuevo Bajo La Bendición de Tío Sam," *Enlace*, Washington Office on Latin America, April 1997.

edgment that the drug problem constituted a "shared responsibility" between both countries. In his September 1997 report to Congress, United States drug czar General Barry McCaffrey outlined a more genuinely cooperative, multilateral strategy to deal with the narcotics problem. The proposed approach at least points in a direction that goes beyond the series of bilateral agreements between the United States and other hemispheric governments that often passes for "multilateralism." McCaffrey also rankled some State Department officials by meeting with Samper in Colombia last October, thus underlining differences about the prevailing policy.

Last July a resolution presented by Senators Christopher Dodd (D-CT) and John McCain (R-AZ) that proposed a two-year moratorium on the certification process and a serious exploration of alternative, multilateral approaches to the drug problem was rejected, 60 to 38. Despite its defeat, the initiative constituted a challenge to current policy and revealed a willingness to entertain fresh ideas. The resolution received Clinton administration backing (albeit considerably delayed).

The presidential trips were also accompanied by some encouraging signs of a recognition that the political landscape in the region has changed. Clinton's Mexico visit was distinguished not only by his welcome statement on drugs, but also by his unprecedented meeting with opposition political figures less than two months before perhaps the most significant election in Latin America last year.

For the first time since its founding nearly 70 years ago, Mexico's Institutional Revolutionary Party (PRI) lost control of one house of Congress, breaking its authoritarian grip and creating more competitive political dynamics. The change was symbolized in early December when Democratic Revolutionary Party (PRD) founder and two-time presidential candidate Cuauhtémoc Cárdenas became mayor of Mexico City (one of the world's largest metropolitan areas) and the country's second most powerful elected official.

Clinton followed a similar script in Argentina, just weeks before the country's congressional elections. He met with five key opposition figures of the newly formed Alliance, which won an unexpectedly huge

victory, defeating the governing Peronist Party and injecting a greater measure of pluralism into Argentine politics. After Mexico this was probably the most important election in Latin America last year. These contests set the stage for crucial presidential elections in Mexico (2000) and Argentina (1999). In both countries Clinton was especially deft in balancing his proper treatment of the president (Ernesto Zedillo in Mexico and Carlos Menem in Argentina) with his open contact with alternative political forces. A decade ago, in a cold war setting, such diplomacy would have been difficult to imagine.

STUCK ON CUBA

The issue that most dramatically underscores the extent to which United States-Latin American policy is fixed is Cuba. Though cold war concerns are, objectively speaking, obsolete, United States policy toward Cuba is still largely stuck in cold war logic and thinking, the prisoner of powerful domestic

The issue that most dramatically underscores the extent to which United States-Latin American policy is fixed is Cuba.

political interests. Though Cuba is not high on the inter-American agenda, virtually every Latin American and Caribbean government rejected the 1996 Helms-Burton Act, which mandates penalties against foreign firms investing in or doing business on Cuban property confiscated from Americans after the 1959 Cuban revolution. The region's governments also fear that the American approach

may be increasing the prospects for violence in Cuba when change does occur, rather than advancing the stated United States goal of a peaceful, democratic transition.

Apart from Colombia and Cuba, there are some other trouble spots that could soon pose a serious challenge for United States policy and the broader hemispheric community. The situation in Haiti is, according to one leading analyst, "slowly drifting toward chaos."² Along with NAFTA, the successful return of Jean-Bertrand Aristide to Haiti in September 1994 was one of the Clinton administration's major achievements in hemispheric policy, showing a commitment to democracy. Though the United States is keeping between 300 and 500 troops in the country, conditions could deteriorate.

Multilateral cooperation will also be essential to manage other potential problems in the region in the near future. Though border hostilities between Peru and Ecuador have ended thanks to the efforts of the United States, Brazil, Argentina, and Chile—the four guarantor countries of the 1942 Rio Pro-

²Donald E. Schulz, "Haiti: Will Things Fall Apart?" *Parameters*, Winter 1997-98, p. 77.

tol, which ended the 1941 war between Peru and Ecuador—the dispute remains unresolved and could erupt again. Paraguay, too, presents enormous difficulties and may call for a regional response similar to the backing the constitutional government received when General Lino Oviedo attempted a military coup in 1996. Today there is considerable tension in the country, with Oviedo's claim to be his party's presidential candidate for the May 1998 elections disputed by President Juan Carlos Wasmosy and others. And the situation in Panama also remains unclear. The United States and Panamanian governments reached a tentative agreement in December 1997 that would allow an estimated 2,000 American troops to remain in the country after the United States gives up control of the Panama Canal at the end of 1999. The troops would be members of a multinational force assigned to a regional counternarcotics center. But the United States faces the formidable and complicated task of marshaling broad support from other hemispheric governments, apart from the possible political fallout in a country it invaded less than a decade ago.

The most significant potential challenge to United States hemispheric policy is Brazil, which at the end of 1997 responded quickly and decisively to cope with the effects of the Asian financial crisis. How a country with some 40 percent of the region's GDP and population deals with such a challenge will surely have enormous regional repercussions. The sobering situation further underscores the continued vulner-

ability and volatility of Latin American economies.

The United States should stand ready to lead a rescue package to support Brazil or other Latin American countries affected by the financial turmoil in Asia, just as it did in Mexico in 1995. That policy, resisted by Congress and American public opinion, was largely successful, as evidenced by Mexico's impressive growth and early repayment of the assistance provided. But the prevailing political mood in the United States means that acting boldly will not be easy.

In the wake of the fast track defeat, the Clinton administration can also take other measures to enhance its credibility in the region (although it is important for the president to remain focused on getting Congress to vote on a resubmitted fast track bill early this year). Even failing that, the United States could give renewed attention to Caribbean and Central American countries by putting forward a new NAFTA-parity legislative measure, as well as beginning to consult systematically with other hemispheric governments about labor and environmental standards.³

These steps would send an important signal that the United States is prepared to develop a serious and coherent hemispheric strategy that transcends often parochial, narrow interests. Such a strategy would have to consider the connections among such key issues as trade, immigration, narcotics, and security—and be grounded firmly in United States interests and values. Presidential visits are welcome, but they are no substitute for a willingness to spend political capital and exercise leadership to build a hemispheric partnership. Only then can United States–Latin American relations slowly become unstuck. ■

³Peter Hakim, "What the Administration Can Do to Make up for the Loss of Fast Track," *The Christian Science Monitor*, November 28, 1997, p. 19.

"Foreign media coverage of Mexico routinely places it either in heaven or in hell—as a country bordering on democracy or on chaos. . . . The July 6 election, however, offers one key lesson: Mexico has become more difficult to understand. . . . On the morning of July 7 Mexicans did not wake up in heaven. But they didn't wake up in hell. Instead they woke up to something that 68 years of PRI purgatory had denied them: a political outcome of their own making."

Mexico after the July 6 Election: Neither Heaven nor Hell

DENISE DRESSER

On the night of the July 6, 1997, elections, left-wing mayoral candidate Cuauhtémoc Cárdenas swept triumphantly into the Zócalo, the main square in Mexico City. As he waved to an exuberant crowd, Mexican politics changed, probably forever. Opposition parties will now govern over 40 percent of the population, 9 percent of it in Mexico City. After 68 years of dominance by the ruling Institutional Revolutionary Party (PRI), the terms "coexistence," "cohabitation," and "divided government" will enter the country's vocabulary. Congress will be transformed from a rubber-stamp, subordinate entity into a testing ground for democratic politics.

The PRI lost its majority in Congress and the Mexican stock market did not crash. As Mexico's Nobel laureate Octavio Paz noted, the elections were a triumph for the Mexican people.

Mexicans voted peacefully for change and against the ruling party. The government did not tell the electorate what the future augured; instead citizens interpreted it themselves through the ballot box. However, as euphoria gives way to the challenge of governing, as newly elected opposition congresspeople—as well as the first democratically elected mayor of Mexico City—are sworn into office, several lessons and sobering prospects are beginning to emerge.

THE PRI: DOWN BUT NOT OUT

News of the PRI's death has been greatly exaggerated. The ruling party won 40 percent of the national vote and four out of six governorships, and managed, thanks to the lifeboat provided by its traditional voters, to retain several bastions. Once again the PRI sought refuge (and found it) in the rural areas: the southern states of Oaxaca, Chiapas, and Guerrero, which remain in the party's grip. A mixture of intimidation and inertia, clientelism and conviction, presidential stumping and fear of change guaranteed the party another uncertain remission.

However, the PRI is undoubtedly a wounded animal. The party lost 112 congressional seats, its majority in local congresses in 7 states, and the governorships of 2 states—Nuevo León and Querétaro—that are economic powerhouses. The jewel in the crown, the Federal District, went to an opposition that is perceived as the ruling party's worst enemy, the leftist Party of the Democratic Revolution (PRD). President Ernesto Zedillo had proclaimed that economic recovery had set in; the results of the July 6 election showed that most Mexicans did not believe him.

The party was punished for a multiplicity of sins. Although the worst of the financial debacle of 1994 was over and many Mexicans had learned new survival tactics, the campaigns rubbed salt in a wound that had not fully healed. People relived their grievances and voted against the party that had produced them. Although geographically removed from the eye of the storm (his last known residence was in Ireland), former President Carlos Salinas de Gortari was omnipresent, and Mexicans lashed out against him and his legacy at the ballot box.

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In this election the PRI seemed downtrodden, bewildered, out of sync with the times. Eight out of ten Mexicans between the ages of 18 and 25—Mexico's Generation X—voted against the ruling party. PRI campaigns were generally low-risk, without surprises, without new proposals, and without luster. PRI candidates kissed babies, distributed bottles of what later proved to be contaminated water, organized mass meetings, and relied on the rusted remnants of the party's corporatist machine. The electoral demise of Alfredo del Mazo, the PRI's candidate for Mexico City mayor, proved that even a well-known *prista* supported by one of the strongest political clans in the PRI—the Atlacomulco group, named after a town in Mexico state—can lose. Burdened by the blunders of its president, Roque Villanueva, the party suffered from the absence of a coherent national strategy. Trapped in an identity crisis, the PRI continues to win, but on fewer occasions and by smaller margins.

One of the main quandaries the PRI faces today is a lack of good leadership. Confronted by the loss of over 6 million votes, the party might toss out the law that requires electoral experience in order to run for the presidency, thus freeing up several current cabinet members for the year 2000. Or it might continue to groom President Zedillo's political protégé and fellow technocrat, newly elected Senator Esteban Moctezuma. Or Mexico might even witness the reemergence of vintage old-guard *pristas* such as Manuel Bartlett, the governor of Puebla. Until and unless the PRI fills its current leadership vacuum, the party will become more fragmented, less national, and more regional; a strong PRI in Tamaulipas and Coahuila will coexist with a weak PRI in Mexico City and Querétaro. In recent local elections, the PRI unraveled in the state of Veracruz, but reinforced its grip in Tabasco.

In a paradoxical twist, Zedillo was both the winner and the loser of this election. His political capital has risen as a result of clean, peaceful, and well-run elections. Also, his statesmanship in the face of Cárdenas's victory is to be commended; instead of lambasting the arrival of an opposition mayor he applauded it. But now the president must come to terms with a resentful and undisciplined party that increasingly feels it is paying at the polls for his economic policy. The PRI will have few incentives to toe the presidential line on legislative issues, and its loyalty to neoliberal economic reform will be tenuous at best. Witness, for example, the recent creation of a splinter group of *pristas* in the Senate—the Grupo Galileo—whose members reject

the top-down directives and unquestioned discipline that have characterized the PRI.

The challenge for Zedillo will be to forge a coalition of support among party moderates, to encourage them to renew the PRI and adapt it to new circumstances, and to prod them into negotiating with the opposition. After all, July 6 was a major defeat for the hard-liners due to the PRI's declining fortunes, and the disarray and bewilderment that pervade their ranks might provide the *zedillistas* with a window of opportunity to seize control of the PRI. However, expectations for PRI reform should remain low: the moderates are a minority, and Zedillo's lack of political savvy is generally acknowledged by friends and foes alike. The PRI is currently engaged in a rancorous battle to assign the blame for July 6 and the loss of key cities in Veracruz, and the winner of the struggle over the party's soul will not be known for several months, or even years. In the meantime, a coalition of hard-line governors from the southeast is regrouping in an attempt to seize control of the PRI and resurrect the party's standard operating procedures.

THE OPPOSITION: NEITHER DOWN NOR OUT

Prior to the 1997 elections, conventional wisdom held that Cuauhtémoc Cárdenas was a political has-been. In the aftermath of his second failed bid for the presidency in 1994, many pundits and politicians had decided that Cárdenas was a spent force. The greatest surprise of the electoral season was his renaissance: his metamorphosis from a wooden, sullen, superior Mexican messiah to a smiling, successful, serene candidate.

While Cárdenas certainly reinvented himself, he was also helped by a peculiar coincidence that surfaced during the campaign. In several ways, the 1997 elections were a replay of the 1988 elections. Now, like then, Mexico lived in a *clima opositorista*, or opposition climate. Now, like then, many Mexicans felt that their economic situation was worse, not better. And now, like then, many Mexicans felt the need to punish the PRI. In 1997, over 70 percent of those polled supported the need for change.

In an unexpected turn of events, the PRD was better suited to capitalize on this simmering discontent than its rival, the right-wing National Action Party (PAN). Cárdenas had changed his political style and his party ran a better campaign than three years earlier: both read the polls better, modified their strategy, and redesigned their platform accordingly. The PRD discarded the whining tone of past

campaigns and developed a forward-looking, optimistic message. Cárdenas replaced his purist positions with a new pragmatism and took advantage of opportunities that his rivals squandered. In a country where decency has become a scarce commodity, Cárdenas was perceived as the only decent candidate. Among an electorate that considered collaboration with Salinas tantamount to treason, Cárdenas was viewed as a victim of the former president and not as his lackey.

Cárdenas also benefited from the dismal campaign that PAN candidate Carlos Castillo Peraza ran in the Mexico City mayoral race, and from the capital's traditional antisystem attitude. In addition, the Zapatista National Liberation Army's silence and virtual disappearance from the national political scene removed fears that a Cárdenas victory would fuel instability and violence. In 1997, aided by a "teflon effect" that saw all accusations from his opponents simply slide off, Cárdenas came into his own.

Cárdenas took office in December 1997, announced his team, and in the first month of his rule committed several political blunders, including naming a police chief whose corrupt record was subsequently unearthed by the press. While the city awaits his tenure with a mixture of eagerness and apprehension, several questions have begun to arise regarding his political prospects: Is the "new and improved" Cárdenas who emerged during the campaign here to stay, or is he a figment of Mexico's collective imagination? Will Cárdenas be a pragmatist or a purist? Will he use his new political pulpit to settle old scores or to govern better than the PRI has? Will he heed the moderates in his party or succumb to pressures from the radicals? Will he govern as a mayor or as a protopresident?

There are no simple or easy answers. What is clear is that Cárdenas's tenure as mayor will be plagued by resentful priístas, recalcitrant businesspeople, and demanding populists. The political differences between Los Pinos, the presidential palace, and the mayor's office may be a healthy improvement, but the distance between extremists and temperate members of the PRD may be difficult to bridge. Perhaps the most important challenge that "the Mexican Tony Blair" will face is a flood of expectations. Popular organizations will want access and resources; demonstrators will demand attention and solutions.

Cárdenas's largest task will be to fulfill campaign promises without destabilizing the city, intimidat-

ing investors, or alienating the middle class, while at the same time remaining a viable presidential candidate for the 2000 race. The worst decision that he and his team could make would be to embark on a triumphalist crusade and interpret the results of this election as a mandate to reverse the government's neoliberal economic agenda. Cárdenas will be judged by his actions—by what he can actually accomplish in the city. If he attempts to govern Mexico City in the traditional PRI style and use the Federal District as a political base for meddling in national politics, his time as mayor could become his political tomb instead of his political springboard. Mexican society did not give the PRD a blank check, and many of those who voted for Cárdenas were in fact voting against the PRI.

Cárdenas's performance will also determine the future of the Mexican left, which has experienced a political renewal in recent elections. Since its creation in 1989, the PRD had lagged behind its adver-

saries by a wide margin and seemed condemned to winning no more than 17 percent of the national vote. Trapped in a perpetual struggle between personalities and factions, the PRD had become the beleaguered third wheel of Mexico's party system. In 1994 the PRD trailed behind as the third electoral force in Mexico City with just 20 percent of the vote. And yet in 1997, the PRD garnered over 45 percent

of the city vote, 29 of the city's 30 federal deputies, and 38 out of 40 seats on the city council.

The July elections were a triumph for party president Andrés Manuel López Obrador. He successfully promoted a political shift in the PRD toward a hybrid strategy that combines organizational and institutional development with mass mobilization. In attempting to accomplish the latter, his *brigadas del sol* (brigades of the sun) infused the PRD's campaign with a vitality it had not witnessed since 1988, and his tough but pragmatic style accounts to a large extent for the party's electoral inroads. Thanks to the party's stunning performance, some of its heavy hitters have gained representation in Congress and the Senate. How the PRD will flex its political muscle, however, is an open question.

The PRD's stance on concrete policy issues is difficult to predict given the party's ideological ambiguity. To be a member of the Mexican left today entails being in a state of permanent political schizophrenia. It means supporting the Chiapas guerrillas but in a soft voice. It means being skeptical of NAFTA but not demanding its complete rene-

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gotiation. It means advocating greater social spending but calling for a major tax cut. The PRD's leadership has said that it will govern without losing its principles. The problem is that few in the party seem to know exactly what principles they are unwilling to lose. Party leaders apparently believe that all the country's ills can be solved by a strong dose of democracy combined with political goodwill.

Caught off guard by the magnitude of its congressional victory, the PRD is just beginning to develop a legislative agenda. Included in its list of potential political battles: establish committees to investigate past corrupt practices by PRI officials, create new laws that would regulate public office, and promote an electoral reform that would make funding fairer. Whether the PRD succeeds in passing these laws will depend on its ability to establish voting coalitions with the PAN, with members of some of the smaller parties, or even with disaffected priístas.

MEDIA MATTERS

Throughout the electoral season, the Mexican media played a key role. More vigilant journalists and more critical coverage guaranteed an unprecedented degree of competitiveness and accountability. For the first time in the country's history, the media behaved like an incipient "fourth estate," and young, aggressive journalists seemed more intent on breaking the news than on supporting the PRI. The written press advocated a dual process of professionalization and modernization, embodied by the Mexico City daily *Reforma* and its sister publication in the northern city of Monterrey, *El Norte*. In recent years these iconoclastic newspapers have published polls showing the PRI's demise, carried stories about the symbiosis between drug traffickers and politicians, and placed pictures of former untouchables like Raúl Salinas de Gortari—mistress on lap, à la Gary Hart—on the front page.

The country's political transition also forced television to march to a new beat. In the past Televisa, the private television monopoly, effectively functioned as a public relations firm for the Mexican government; its owner, Emilio Azcárraga, often declared that he was "a soldier of the PRI." As a result, during the 1988 presidential race opposition candidates were invisible men. Televisa and tightly controlled government networks only allotted 5 percent of their time to Cárdenas, although he probably won the election (many observers believe it

was stolen by Salinas). By contrast, in 1997, more competitive and privatized television stations were obligated—both by ratings and by the demands of the autonomous Federal Electoral Institute—to provide more inclusive and fair-minded coverage.

Television (despite persistent biases) placed the three contenders for the post of Mexico City mayor on equal footing. Instead of standing passively by, the population participated, observed, and judged what it saw on the television screen. The government-Televisa handcuff did not misrepresent Cárdenas to the electorate; instead he was able to represent himself through his access to the screen. Under the unforgiving glare of the television cameras the PAN's mayoral candidate, Carlos Castillo Peraza, proved to be the only politician capable of losing a debate against himself. Scrutinized by probing journalists, the PRI's mayoral candidate, Alfredo del Mazo, was exposed as a prototypical member of the old guard.

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Media access magnified the virtues of good candidates and the vices of bad ones. By way of television, radio, and the press, political competition reached people's homes and psyches, and thus undermined the PRI's attempts to paint opposition politicians as the antichrist. In another turning point in Mexican political history, minutes after learning he had won, Cárdenas appeared on a Televisa talk show and engaged in a lively conversation with Lorenzo Meyer, a prominent historian and commentator who in the past had been banned by the pro-government television conglomerate.

Also for the first time, a large number of intellectuals were at the forefront of the democratic debate. The days when intellectuals advised presidents and ruling party officials are coming to an end: independence and iconoclasm are replacing the complicity of the past. Intellectuals are discovering that their audience is Mexican society at large.

In Mexico intellectuals have always been public figures with a political voice. In the past they frequently used their privileged position to maintain the status quo and amplify the "official" truth of the PRI. They acted as spokesmen, not as critics. At the head of powerful cultural groups organized around the country's most influential journals, *Vuelta* and *Nexos*, they used their talents to fight wars against each other instead of against an authoritarian regime. Before the arrival of competitive elections, Mexican intellectuals found it more useful to influence the government than public opinion. Now the

reverse may be true. Intellectuals have begun to realize that fame and fortune can be achieved by proximity not to power but to the people:

In the past, financial dependence muzzled free speech, bought consciences, and turned intellectuals into ideologues. But in recent years intellectuals have discovered that disobedience pays better. Instead of knocking on the doors of government offices in search of patronage, intellectuals can find safe haven in increasingly powerful private universities. Instead of relying on public funding, they can appeal to foreign donors. Writers and thinkers are finding an outlet for their ideas not in Los Pinos, but in the media and through speaking engagements in the United States. Their monthly paycheck no longer comes from the Ministry of the Interior, but from newspapers or television stations. The slow but steady arrival of democracy has allowed—or in some cases, forced—intellectuals to remove their gags, unleash their pens, and shed their previous incarnation as government scribes.

WHEN CANDIDATES AND CAMPAIGNS MATTER

In 1997, for the first time in Mexican history, candidates and campaigns mattered. Perhaps no other party learned this lesson as bitterly as the PAN. Despite its announcement in January of a victory foretold in Mexico City, this party was the clear loser in the nation's capital. The National Action Party thought that it was enough to have a good brand—the PAN—and that the party's prestige and growing electoral clout would be enough to assure individual victories. But the party's selection of a bad product—Carlos Castillo Peraza—cost the PAN a probable triumph in Mexico City and numerous votes in the provinces. With 40 percent support in the polls at the beginning of the race, this was Castillo's election to lose—and he lost it. The PAN has had to come to terms with the disastrous results, and recognize that Castillo Peraza was the Bob Dole of Mexican politics, a good party leader but an unfortunate candidate.

Millions of *capitalinos* voted against Castillo for reasons that were more visceral than rational. Castillo was crucified not because of his proposals but because of his arrogance. In the final count, the intelligence of his message and the weight of the PAN were buried by the personal deficiencies of the candidate. The PRI also learned this lesson the hard way after a bad campaign by front-runner Fernando Ortiz Arana cost the ruling party the crucial governorship of Querétaro. The quality (or lack thereof) of campaigns and candidates altered predictions

and produced surprises. A volatile and increasingly sophisticated electorate rewarded those who ran good races and punished those who did not. The predictable voter is becoming a remembrance of things past.

Because candidates and campaigns and not just the party name matter, the PAN will undoubtedly engage in a certain amount of soul-searching that could alter the internal power balance in the party. The more traditional, purist faction in the PAN—epitomized by Castillo Peraza—will probably have to give way to the neo-*panistas*, the pragmatists, the wing of the party that cares more about winning power than about protecting principles. Castillo's demise has strengthened the hand of politicians with electoral and government experience, including Ernesto Ruffo, Francisco Barrio, Carlos Medina, and Vicente Fox. As a result, the PRI will probably no longer find an easy or unconditional ally in the National Action Party. Under the leadership of the *barbaros del Norte* (the barbarians from the North)—and with the presidency in mind—the PAN will probably try to undermine the PRI at every turn. The PAN's recent recalcitrance in Congress, including its willingness to establish strategic short-term alliances with the left-wing PRD, is testimony to this shift.

THE NEW LEGISLATURE'S FIRST TEST

As a result of the July 6 midterm election, the process by which economic policy is made in Mexico has changed, irrevocably and for the better. In a clean break with its docile past, the Mexican Congress has turned into a battlefield, complete with frontal attacks, strategic retreats, interminable negotiations, and potential stalemates.

Under PRI rule, economic policy was designed and discussed behind closed doors, by a close-knit circle of friends. Today government technocrats are being forced to explain why their proposals are best, why budget deficits are dangerous, and why taxes should not be cut. Congress is becoming, as historian Enrique Krauze predicted, a "laboratory of democracy."

Not everyone in Mexico has welcomed or understood these changes. President Zedillo, for example, declared after the election that "economic policy will not change." And a prominent economist from the Instituto Tecnológico Autónomo de México—the breeding ground for Mexico's ruling technocracy—recently stated that opposition congresspeople were "crazy" for even discussing a new economic route. The president,

however, no longer has the prerogative to make such a sweeping claim. And even the most narrow-minded Mexican economists and businesspeople will have to recognize that a democratic Congress is not by definition an irresponsible Congress.

Emboldened by their electoral success, Mexico's opposition parties initially banded together to form an "opposition bloc" to confront the PRI in Congress. Led by prominent leaders from the major parties—Porfirio Muñoz Ledo, Santiago Creel, Carlos Medina Plascencia—the bloc wrestled away several of the most important congressional committees from the PRI, including the governance and budget committees. Both parties had a major incentive to maintain a united front and defeat the PRI. The PRD wanted to be recognized as a responsible political force, and therefore needed to avoid radical stances. The PAN, on the other hand, felt forced to banish the perception of coziness and proximity to government (a perception rooted in the party's collaborative relationship with Carlos Salinas). Thus, the parties began to hammer out a unified legislative agenda, only to be confronted in November with the first real test to the survival of the bloc: the battle over the budget.

Negotiations over the budget proved to be the new Congress's trial by fire, with major differences surfacing among government and opposition parties over taxes and the size of the deficit. The Zedillo team wanted to stay the current neoliberal course, while the opposition bloc called for lower taxes and higher government spending. Ultimately, ideological and strategic differences between the PAN and the PRD led the former to abandon the bloc and vote with the PRI to pass the budget.

After heated negotiations, the end result was a budget with no tax cuts, an expanded deficit, and major modifications—introduced by the opposition—to how the budget should be spent. There would be more social spending and less political slush for the PRI. This outcome actually constituted a "win-win" situation for both the government and the opposition. The Zedillo team claimed a political victory by refusing to budge on the tax issue, while the PAN argued that its newfound political muscle was strong enough to reorient government expenditures for the coming year. And the PRD once again was able to declare that the PRI-PAN alliance had sabotaged democracy, thus demonstrating that the left was the only force capable of defending popular interests.

The budget wars presage a new era in Mexican politics, one defined by congressional and party

politics. Bills will undergo revisions and amendments, congresspeople may defect from their parties' voting blocs, and lobbying will become an integral part of the country's political landscape. Mexico will begin to experience the vagaries of a true legislative life. As a result, the central axis of Mexican politics will change. In the past, in order to decipher Mexico, Americans focused on the presidency and the PRI. In the future, the spotlight will shift to Congress.

DEMOCRACY AT WORK

Foreign media coverage of Mexico routinely places it either in heaven or in hell—as a country bordering on democracy or on chaos. Mexicans are metamorphosing either into drug traffickers or into democrats; they are either applauded or skewered in the press. The July 6 election, however, offers one key lesson: Mexico has become more difficult to understand. Those in the United States with an interest or a stake in Mexico—government officials, investors, analysts, the media—will be confronted with a country where nothing is written in stone, where the Congress, the provinces, and the PRD matter. In the past, the United States government has had one main interlocutor: an omnipotent president leading a monolithic, disciplined party. For years it had the luxury of dealing with a very predictable ruling class. Now American officials will need to learn more about opposition leaders, regional politicians, and interparty politics. In the past, the problem with Mexico was its opacity; now it will be its openness, not its undemocratic habits but its uncertainty.

What can Mexicans and foreigners look forward to? More of what the country witnessed in the July 6 race: more messy campaigns, more combative elections, more competitive races, but also more transparency and more accountability; in sum, more of the stuff that democracy is made of. As writer Federico Reyes Heróles has argued, *la democracia no es grata* (democracy isn't pleasant). The country's fundamental problems—poverty and polarization, inequality and unemployment, corruption and drug trafficking, guerrilla warfare and unsolved crimes—will pose as much of a challenge to newly installed opposition governments as they did to their PRI predecessors. On the morning of July 7 Mexicans did not wake up in heaven. But they didn't wake up in hell, either. Instead they woke up to something that 68 years of PRI purgatory had denied them: a political outcome of their own making. ■

"Historically, Colombians have been known for their tremendous capacity for resistance in the face of the recurrent patterns of violence, corruption, inequality, and injustice that have characterized the country's development. Today, ungovernability, widespread corruption among the political class, and intolerable levels of violence and human rights abuses have transformed resistance into resignation."

Colombia: Chronicle of a Crisis Foretold

ARLENE B. TICKNER

Colombia is undergoing an unprecedented crisis: the credibility and legitimacy of government institutions are alarmingly low; much of the country has become ungovernable; human rights violations, committed largely by paramilitary groups but also by the armed forces and guerrillas, have risen to deplorable levels; relations with the United States are notably tense; and a lasting settlement to Colombia's 50-year civil war seems increasingly remote. Indeed, a look at Colombia today offers little cause for hope for the near future. A look at the past will help explain why.

THE POLITICS OF VIOLENCE

A bipartisan political system that excludes alternative actors politically, economically, and socially has defined Colombia's political landscape for more than a century. Created in the mid-1800s, the two elite-controlled parties (the Liberals and the Conservatives) limited the development of class-oriented political organizations by accommodating diverse interests within the bipartisan structure. Nearly 50 years after their creation, the War of a Thousand Days (1895–1902), resulting primarily from interparty conflict and leading to 100,000 deaths and economic collapse, marked the beginning of another important pattern in Colombian history: the channeling of violence through partisan identities as a source of party strength and consolidation.

Although the War of a Thousand Days officially ended in 1902, civil conflict continued until the early 1930s. The election of Alfonso López Pumarejo to the presidency in 1934 reflected the rise of a Liberal anti-elite that aspired to eradicate traditional oligarchic forms of governance while adapting the state to Colombia's changed economic and social realities. López's program represented a significant threat to the status quo because it provided for agrarian reform, labor legislation, state intervention in economic matters, and state secularization. The eventual abandonment of agrarian reform and aggressive social legislation by the progressive sector of the Liberal Party (which settled for very limited social reform and modernization tolerated by the oligarchy) aggravated the frustrations of Colombia's large rural population and ultimately contributed to the outbreak of "La Violencia" (the Violence) between 1948 and 1957.

Although the initial evolution of the Violence, which would eventually leave as many as 300,000 people dead, was mainly rooted in party vengeance and incited by regional political leaders of both parties (as well as the Roman Catholic Church), as the conflict unfolded it acquired a class-oriented dynamic that became impossible to control. In 1953, in an attempt to put an end to the Violence, General Gustavo Rojas Pinilla assumed dictatorial powers with the support of the Liberals and a considerable faction of the Conservative Party. Four years later Rojas Pinilla was removed from power, with the consent of the two parties, because of his attempts to establish an autonomous political movement independent of the bipartisan system. After Rojas Pinilla's ouster the two parties created the National Front in 1958, paving the way for Colombia's transition back to democracy through

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an agreement in which the Liberals and Conservatives would alternate the presidency and share power proportionally in the remainder of the public sphere.

While the National Front brought an end to traditional interparty violence and conflict and created conditions for an incipient "peace" in the country, it left the economic and social problems at the root of the Violence intact. As a result, those left outside the power-sharing scheme began to seek alternative means of expression, leading to the consolidation of numerous guerrilla movements in the 1960s, the emergence of illicit narcotics activities in the 1970s and 1980s (marijuana and later cocaine trafficking), and the proliferation of paramilitary "self-defense" groups in the 1980s and 1990s.

THE FAILURE OF THE 1991 CONSTITUTION

In 1991 a constitutional assembly was convened, partly on the assumption that the National Front was a significant cause of Colombia's political problems and needed to be replaced. The 1991 constitution, which replaced the 1886 version, aimed to restore the legitimacy of the political system by increasing the participation of civil society in various decision-making processes, as well as by incorporating previously marginalized groups, including indigenous and black communities, and bringing armed factions into the political fold.

Although the 1991 constitution formally provided for new channels of political inclusion, the circumstances surrounding the constitutional assembly itself were exclusionary. On December 9, 1990, the same day elections for the assembly were held (and that saw a turnout of only 16 percent of the electorate), the armed forces seized and destroyed Casa Verde, the military stronghold of the Revolutionary Armed Forces of Colombia (FARC), one of the remaining guerrilla movements in the country. The action sent a strong signal about the government's attitude toward allowing the participation of armed actors in this process.

During the constitutional assembly itself, which was in session from February to July 1991, representatives of the country's three major political forces at the time—the Liberal Party; the National Salvation Movement or MSN, a faction of the Conservative Party; and Democratic Action M-19 (AD M-19), the party resulting from the political incorporation of the M-19 urban guerrilla movement—met secretly to determine the basic contents of the new constitution. (When he presented the tripartite agreement to the full assembly, AD M-19

leader Antonio Navarro Wolf proclaimed that not a single comma of the written document would be changed.) Concomitantly, President César Gaviria, with the support of the constitutional assembly, dismissed the Congress shortly after the signing of the new constitution and appointed an interim legislative body until after the congressional elections of October 1991.

Although the elections conducted in Colombia between 1990 and 1991 created the illusion that the bipartisan system had changed, primarily due to the brief career of AD M-19 as a significant national actor, the traditional parties recovered their predominance with the presidential and congressional elections of 1994. The optimism surrounding the constitutional assembly has thus slowly given way to increasing skepticism regarding the country's future, skepticism further fueled by a faltering economy, alarming levels of political violence and human rights abuses, a crisis of legitimacy surrounding the government of Ernesto Samper Pizano (in office since 1994), and less than optimal relations with the United States.

IMPLEMENTING NEOLIBERALISM

The 1991 constitution formalized the implementation of the neoliberal model in Colombia. It did this through state reforms intended to enhance executive power and reduce the autonomy of the judicial and legislative branches, and by concentrating macroeconomic planning in the hands of a smaller circle of technocrats, thus denying the effective participation of civil society.

The overall results of neoliberal reform in Colombia in social and distributive terms parallel its results in the majority of Latin American countries. One outcome has been a growth in unemployment, underemployment, and informal sector employment. While officially unemployment in 1997 was estimated at 12.2 to 14 percent, critics argue that a more realistic estimate would be significantly higher. The United Nations Development Program's 1996 *Human Development Report* estimates that 60 percent of Colombia's workforce is employed in the informal sector, where job security, legal guarantees, and salary levels are severely curtailed.

Neoliberal reforms have also given rise to alarming levels of poverty and inequality; approximately 55 percent of Colombia's population lives below the poverty level. This situation has been aggravated by an acute crisis in agriculture, itself a result of the neoliberal program. Although the Samper government has provided emergency assistance to the

poorest sectors of the population through the Social Solidarity Network, there has been little official support for the reactivation of the country's system of production. In addition, while the minimum wage has increased approximately 265 percent between 1990 and 1995, the cost of the basket of basic consumer goods for a family rose 332 percent, leading to reductions in the standard of living of large portions of the population.

Although the third trimester of 1997 gave clear signs of economic recovery, the potential for economic growth continues to be restricted by the persistence of structural bottlenecks in the national economy. While estimated growth for 1997 is 2.7 percent, according to Fedesarrollo, one of Colombia's most respected economic think tanks, growth for 1998 is projected at 4.1 percent. Inflation in 1997 was 18 percent, while a goal of 16 percent has been established for 1998. Although risk analysts such as Standard and Poor's have maintained the same risk estimate for Colombia over the past few years, the international financial community in general has expressed growing concern for the future of the Colombian economy—especially because of the country's fiscal deficit, which at 4.5 percent of GDP has been described by the IMF as “serious.” Finally, drug earnings, which are estimated to have reached between 25 and 35 percent of Colombia's legal exports in the last three decades, have had an impact on the Colombian economy, especially on prices for goods and services. This is reflected in disproportionate prices for urban real estate as well as the increasing investment of drug traffickers in rural properties, which has led to traffickers' control of a large percentage of the country's cultivable land.

POLITICAL VIOLENCE, RIGHT AND LEFT

Drug trafficking is also part of Colombia's complex network of violence. The traffickers are joined by guerrilla and paramilitary groups, the armed forces, and common criminals and have created a horrifying litany of human rights violations. According to figures cited by nongovernmental organizations such as the Colombian Commission of Jurists and the United States-based Washington Office on Latin America (WOLA), 26,778 homicides were committed in 1996, one of the highest figures per capita in the world. Fully 99 percent of these crimes go unpunished. Ten people are killed every day in political violence (60 percent of these mur-

ders are attributable to paramilitary forces), and one person disappears every two days. Since 1985, 1 million civilians have been displaced as a result of the armed conflict. The Office of Displaced Persons estimates that in 1996 over 70,000 Colombians were forced to flee from their places of origin; by October 1997 that year's figure amounted to 40,000. According to an article published in the April 16, 1997, issue of *El Tiempo*, of the 10,843 active members of Colombia's two largest guerrilla groups, FARC and the National Army of Liberation (ELN), 7 to 10 percent are minors between 13 and 17 years of age; within the country's paramilitary groups this figure is believed to reach 50 percent.

According to Human Rights Watch, 76 percent of human rights abuses in Colombia are committed by the paramilitary forces; the Colombian Commission of Jurists estimates that 70 percent of the political assassinations carried out are attributable either to these groups or to the armed forces. Dur-

Since 1985, 1 million civilians have been displaced as a result of the armed conflict.

ing the 1980s, the creation of so-called self-defense groups in the countryside was legalized in order to combat the increasing threat of the guerrillas. The Peasant Self-Defense Organization of Córdoba and Urabá, two regions characterized by high levels of social conflict and violence, was formed in 1985.

Gradually, this organization, along with others created during the same period, began adopting illegal offensive strategies against the guerrillas and the civilian population allegedly supporting them. In 1995 the United Self-Defense Force of Colombia was created to consolidate the different paramilitary groups under one organizational structure, with the goal of gaining both military strength and political recognition.

Notwithstanding the rural origins of these self-defense organizations, violence has not been limited to the countryside alone. On May 19, 1997, in the early hours of the morning, four armed hooded men believed to belong to a paramilitary organization invaded the Bogotá home of Mario Calderón and Elsa Alvarado—researchers with the Center for Research and Popular Education who were dedicated to environmental and human rights issues—and executed them in front of their two-year-old son. In July, 100 members of the paramilitary forces seized the town of Mapiripán, located approximately 124 miles south of Bogotá in the midst of guerrilla territory, and tortured and killed 30 villagers suspected of sympathizing with the guerrillas; their heads were left hanging on lampposts as a

reminder that involvement with the guerrilla movement would be punishable by death. In this attack, as well as in a number of other brutal massacres in 1997, the complicity of the armed forces, although denied by the government, is suspected. Of equal concern is the fact that paramilitaries have made such massacres the rule rather than the exception, which bodes ill in terms of finding lasting solutions to the current levels of violence.

For Colombia's guerrilla groups, the end of the ideological conflict surrounding the cold war and the concomitant drop in external financial support, have led to the use of kidnapping as a primary source of income. Beginning in the mid-1980s, a gradual process of interpenetration between guerrillas and groups involved in the drug trade began to emerge in which drug traffickers offered financial rewards in exchange for guerrilla defense of crops, airstrips, and laboratories. This process became even more notable in the early 1990s, when some guerrilla factions became directly involved in the cultivation of poppy crops.

As a result, the international dimension of the Colombian armed conflict is not related primarily to ideological factors, but to links between guerrillas and drug traffickers. This explains in great part the military strength of the former and the complexities involved in reaching a negotiated settlement to the conflict. A further complication is that in certain regions of the country, where there is a complete absence of legal authority (state or military)—the "gray area phenomena"—the guerrillas are viewed as the only legitimate form of social organization and source of justice. As of mid-August 1997, 111 municipalities are reportedly under the complete control of the guerrillas.

THE SAMPER SCANDAL

The economic uncertainty, political ungovernability, and violence that characterize Colombia have been aggravated by the questionable circumstances surrounding Ernesto Samper's 1994 election campaign (he is suspected of having received sig-

nificant contributions from drug-trafficking organizations, in particular the Cali cartel). A drawn-out series of accusations and denials concerning this allegation—labeled Process 8.000 after the number assigned to the case by the federal prosecutor—polarized the country and irrevocably damaged the legitimacy and credibility of the Samper administration. In January 1996 former Defense Minister Fernando Botero testified that the president was aware that his campaign had been financed by contributions of approximately \$6 million from drug traffickers.

On February 14, 1996, Samper was formally indicted by the federal prosecutor on charges of illicit enrichment and procedural fraud. Following an investigation conducted by the Accusations Committee of the House of Representatives, the president was absolved. In addition to the prosecution and arrest of several individuals involved in the

Samper presidential campaign, 17 congressmen have been charged with illicit enrichment in the context of Process 8.000.

For the first time since the United States had adopted the drug certification mechanism in 1986, Colombia was decertified in 1996, and again in 1997, for its supposed failure to cooperate in the war on drugs. The decertification was made despite notable progress dur-

ing this period, including the capture of the leaders of the Cali cartel, the eradication of large portions of illicit crops in comparison to other drug-producing nations, the confiscation of comparatively large amounts of drug shipments, the approval of legislation to revoke the ownership of properties obtained through illicit narcotics activities and to increase sentences for drug-related crimes, and the reintroduction of the issue of extradition, prohibited by the 1991 constitution.¹ Following the revelations about the infiltration of narcofunds into Samper's campaign, the United States began to identify Colombia's drug problem directly with President Samper and his departure from power. In addition to questioning the results of the investigation conducted by the Colombian House of Representatives, the Department of State revoked Samper's United States visa in an attempt to further discredit the Colombian government.

The direct pressure the United States exerted on the Samper administration—specifically, the actions of United States Ambassador Myles Frechette—is another crucial factor in explaining the current cri-

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¹The extradition of Colombian nationals was approved by both the Colombian Senate and the House of Representatives during the final months of 1997. The full Congress must conduct a final vote on the issue in order to formalize this legislation. The measure is not retroactive, however, making the extradition of the leaders of the Cali cartel to the United States for trial impossible.

sis in Colombia. Never in the history of Colombian–United States relations has a United States ambassador played such a central role in the internal affairs of this country. In addition to regularly and publicly expressing opinions related to Process 8.000 and the drug issue in general, during his four years in Colombia Frechette was constantly sought out by the Colombian media for his opinions on corruption, human rights abuses, and Colombian democracy in general.

THE OCTOBER ELECTIONS

The period leading up to nationwide elections on October 26, 1997, for governors, mayors, city councils, and departmental assemblies was enveloped in violence and uncertainty. Seventy-five municipalities were left without candidates for mayor, 20 without candidates for the city council, and 18 without candidates for both because of pressures exerted by the guerrillas. The August 24, 1997, *El Espectador* reported that during the most recent electoral period, which began on January 1, 1995, 190 council members have been assassinated, 345 kidnapped, 317 freed, 7 disappeared, 42 forced to resign, and 2,500 threatened by guerrillas and paramilitary forces alike. In the last three years, 26 mayors have also been assassinated.

Although voter turnout was extremely low in some rural areas threatened directly by the guerrillas, abstention levels were approximately 54.6 percent, considerably lower than in previous elections. Much of this increase corresponds to growing voter participation in Bogotá, a city that is largely insulated from the violence emanating from the armed conflict.

Perhaps the highlight of the October elections was the Citizens' Mandate for Peace, a ballot initiative presented by different sectors of civil society demanding respect for the civilian population by the armed forces and the guerrillas; the mandate received 10 million votes and was celebrated as a triumph of national optimism over the threat of violence.

RESIGNED TO THE INTOLERABLE

Despite the disheartening reports of yet another massacre, army-guerrilla-paramilitary battle, popular protest, or human rights violation that are presented almost daily to Colombians on the evening news, there has not been a radical shift in national consciousness concerning the intolerability of the

situation, especially by those in the government and armed forces. The military commander, Manuel José Bonnet, has gone so far as to claim that the armed forces do not form part of the armed conflict, should not be targeted by initiatives such as the Citizens' Mandate for Peace, and should be left alone to do their job, which is defined as combating the guerrilla threat and defending the country's national security. Although it has been suggested that the armed forces are indeed becoming more conscious of the need to respect human rights—primarily because of increasing criticisms on the part of the United States and the European Union and the threat of reductions in the military aid they provide—recent reductions in violations committed by the military have been accompanied by increases in human rights violations by paramilitary organizations, with which factions of the armed forces maintain close, if not collaborative, ties.

When asked to describe Colombia, the Argentine writer Jorge Luis Borges responded that being Colombian was an act of faith. Given the clouded circumstances surrounding the country's future, Borges could not be more correct. Historically, Colombians have been known for their tremendous capacity for resistance in the face of the recurrent patterns of violence, corruption, inequality, and injustice that have characterized the country's development. Today, ungovernability, widespread corruption among the political class, and intolerable levels of violence and human rights abuses have transformed resistance into resignation.

Recent polls suggest that former Minister of the Interior Horacio Serpa, one of Samper's closest advisers—and who has been cleared of all charges in Process 8.000—has an even chance of being elected president in the February 1998 elections, which means Colombia might expect four years of the same. United States pressures would continue, the economic scenario could darken, and the credibility and legitimacy of government institutions would probably remain at alarmingly low levels. On the other hand, electoral surprises can occur, and it is not implausible that several of the other presidential candidates could pool their resources to prevent Serpa from winning. Finally, if initiatives such as the Citizens' Mandate for Peace flourish, giving rise to new and creative forms of citizen participation in the resolution of the current crisis, it is possible that, in the words of Gabriel García Márquez, Colombia may get a second chance on earth. ■

"The enduring power of the military and strengthened opposition from the right has had a humbling effect" on the government, which "recently admitted that the transition to democracy is far from over."

Chile's Lingering Authoritarian Legacy

FELIPE AGÜERO

The Concertación de Partidos por la Democracia, the coalition of center-left parties that has governed Chile since the resumption of democracy in 1990, is now halfway through its second administration, led by President Eduardo Frei Montalva. The previous Concertación government, which was headed by President Patricio Aylwin, successfully concluded its term in 1994 after steering the country away from the uncertainties of the initial years of redemocratization. Aylwin's government was hailed for its ability to promote consensus, an ability that allowed it to overcome the many hurdles encountered in the tense relations with a military that resisted full accommodation to a new civilian-military balance and that reacted, often in a semirebellious fashion, to the pursuit of justice in the area of human rights.

Success was also largely based on sound economic policy that adhered to the market orientation firmly initiated during General Augusto Pinochet's 17 years of military rule. During Aylwin's administration GDP per capita leapt for the first time over the levels attained in the early 1970s. Growth was accompanied by an effort at erasing the gross income inequalities disregarded during the Pinochet years. The new Frei government has seen economic growth intensify, endowing the Concertación with a record that is hard to beat.

THE ECONOMY FORGES AHEAD...

During the eight years of government by the post-Pinochet coalition, GDP has expanded at an average annual rate of 6.7 percent. Inflation has declined

from 27 percent in 1990 to under 6 percent in 1997, and the population living below the poverty line fell from 39 percent in 1990 to 23 percent in 1996. Gross domestic investment and saving rates, at about 25 and 28 percent respectively, are the highest in the region. Real per capita income has increased over 50 percent in the last eight years, and foreign direct investment has continued to grow, as have foreign reserves (Chile was spared the negative effects of the Mexican peso crisis of 1994, which had a severe impact on the Argentine economy).

Chile has also vigorously pursued trade agreements with different regions across the world. Interest in joining Mercosur, the prosperous Common Market of the South formed by Argentina, Brazil, Paraguay, and Uruguay in 1991, had been postponed in the hope of obtaining membership in the North American Free Trade Agreement (NAFTA). But the Clinton administration's reluctance to seek and inability to obtain fast track authorization to negotiate Chile's entrance to NAFTA after it was invited in 1994 led Chile to become an associate member of Mercosur.

Opting for a more institutionalized economic connection with its Latin neighbors makes a lot of sense. Chile has increased exports to its nine main Latin American partners by 50 percent since 1990; these now account for 17.5 percent of its total exports. Also, outside investments in the region by Chilean companies amount to about \$10 billion, equivalent to 15 percent of the country's GDP. Chile has also become a full member of the Asia Pacific Economic Cooperation forum, which brings together the economies of the Pacific Basin, and is moving toward a trade agreement with the European Union.

...BUT THE POLITICAL TRANSITION?

With its focus on tangible accomplishments, Frei's administration has been depicted by its lead-

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ing officials as the modernization administration. In contrast, Aylwin's government is depicted as a transition government because of its main objective of securing the stability of Chile's new democracy. Without the uncertainties that disturbed Aylwin's term, the coalition under Frei can concentrate on pragmatic tasks that aid the pursuit of ambitious development goals. But Aylwin administration officials were also eager to leave transition tasks behind and to move to grander development objectives; indeed, they declared the transition over in 1992.

One significant difference between the two administrations has been relations with the military. During Frei's term there have not been any quasi rebellions of the kind that took place several times during Aylwin's government over discontent with human rights and other issues the military deemed threatening. Under Frei relations between Defense Minister Edmundo Pérez Yoma and Pinochet have been smooth, so much so that Pinochet declared Pérez Yoma the "best" minister in the cabinet and awarded him the army's highest decoration. The military has been allowed to proceed with its modernization and acquisition plans, and human rights issues have receded.

A smooth transition in the military leadership began last October with the designation of the next head of the army, General Ricardo Izurieta, who will take over no later than March 1998 when General Pinochet steps down after nearly 25 years in that position. The smoothness was broken only by the president's decision not to promote Brigadier Jaime Lepe to general. Lepe is accused by Spanish courts and Chilean sources of involvement in the assassination of a Spanish citizen following the 1973 coup. The Izurieta appointment, along with that of a new head of the navy, Admiral Jorge Arancibia, has led to satisfaction across the political spectrum, since it signals the beginning of a less politicized military leadership made up of professionals who held less visible responsibilities in the period of military rule.

However, this smooth transition in military leadership was countered by another reality. This reality—the enduring power of the military and strengthened opposition from the right—has had a humbling effect on Concertación officials, who recently admitted that the transition to democracy is far from over. Democratization will not be complete until the government coalition overcomes the opposition's resistance to reforming the constitution in order to eliminate authoritarian legacies. Moreover, a new sense of malaise has emerged, the result of the seemingly intractable state of income inequal-

ity and the withdrawal of support for political institutions expressed as declining political participation.

THE AUTHORITARIAN-DEMOCRATIC FISSURE

The right's opposition to reforms—including the president's powers over military appointments, the composition of the National Security Council and the Constitutional Court, electoral law, and other aspects of the constitution—remains unabated. Repeated attempts at reform by both Aylwin's and Frei's administrations have run into persistent opposition from the right.

For a moment, development of a "liberal" right within the leadership of Renovación Nacional (National Renewal, or RN), the largest party in the opposition bloc, gave hope that an agreement on at least some of these reforms would be possible. One reform, the elimination of the constitutional clause allowing nonelected senators, would have erased a significant legacy imposed by the Pinochet regime. Although agreement was reached in mid-1997 with RN leaders, they were unable to line up the party's senators behind the accord and the reform attempt was killed. This and previous failed efforts to rid the system of the institutional authoritarian legacy revealed serious rifts within RN between the "liberal" leadership of the party and those RN senators who belong to an authoritarian-conservative tradition with support in rural regions.

The December 11, 1997, elections for Congress made things much harder for the "liberal" right, and for any hopes of reform. The Unión Demócrata Independiente (Independent Democratic Union, UDI), the other party in the electoral pact of the right, which has remained closely identified with the legacy of Pinochet, was strengthened relative to the RN and significantly increased its share of seats in the Senate. Among its new senators are former hard-line Pinochet ministers and even a former junta member. To make matters worse, General Pinochet has decided to become a senator once he leaves the leadership of the army in or before March 1998, making use of a clause in his 1980 constitution. He will be joined by the outgoing head of the navy, along with three other former commanding generals of the armed services. With this hard-core Pinochet-identified opposition in the Senate, the chances of any major reform eliminating authoritarian legacies are nil.

This postelectoral landscape confirms a major cleavage that has marked electoral competition since the resumption of democracy. The electoral rules forced on the new democracy in 1990 by the

Pinochet regime determined the formation of electoral pacts, one of the right, another of the center-left. These two pacts broke with the multiparty competition of right, left, and center that had prevailed before military rule.

The competition between two major pacts has effectively created a two-bloc system. But this organization of political competition has been more than just the result of a superimposed electoral system; its persistence and ability to organize the right and center-left for every congressional, presidential, and municipal election since 1990 reflects the perseverance of the authoritarian-democratic cleavage that emerged in the struggle for democracy against the Pinochet regime.

This cleavage effectively operates behind the consensus that has been forged around the success of the economic model. Competition has been moderated by this success, which has helped to largely eliminate the polarization that characterized Chile's pre-Pinochet democracy. Moderation and the kind of centripetally oriented competition that has prevailed since 1990 cannot, however, mask the deep divisions that continue to divide the political spectrum.

There have been, nonetheless, some important areas of agreement, such as the partial and long overdue reforms introduced in the judiciary. The opposition thwarted attempts made during the Aylwin administration to modernize the judiciary and generate new mechanisms for appointment and control of the courts. But in 1997 Congress agreed to create an office of the attorney general, which should initiate global reforms in the penal process. And on December 13, 1997, a joint session of Congress overwhelmingly ratified a constitutional reform that establishes a new mechanism for the appointment of justices to the Supreme Court with the participation of the executive and the Congress, expands its members from 17 to 21, and mandates the inclusion of 5 justices that do not come from within the judiciary. Congress's new configuration since the December elections has, however, toned down optimism in this and other areas.

THE CONCERTACIÓN AND ITS DISCONTENTS

The Concertación's successes in the economy and modernization have been accompanied by growing discontent. One source of this is the inability to address the distributional problems that economic growth has made apparent. Social policy has made it possible to reduce the percentage of the population living below the poverty line, although levels of

extreme poverty remain high. Natural disasters, such as the earthquakes that periodically shake different parts of the country, have revealed the significant poverty of parts of the Chilean population otherwise ignored by the layers of progress and the images of modernization that pervade the middle classes and opinionmakers. In addition, income inequality has continued to grow, placing Chile among the historically worst cases of inequality in Latin America: Brazil, Guatemala, and Honduras. The freest and most competitive economy in Latin America has become also one of the most inegalitarian.

This is undoubtedly a source of frustration for many of the supporters of Concertación. While parties and electoral blocs include voters from across income categories, there is no question that a larger share of the lower income groups support the government coalition. Dissatisfaction has resulted in increased labor conflict, which, according to a recent study issued by the International Labor Organization, has expanded in the past three years. Over 335,000 workers participated in illegal stoppages or strikes in 1996. Greater mobilization by unions and other organizations has also been observed. Members of left organizations outside the Concertación, primarily the Communist Party, have been elected to head student organizations at the largest universities. Also, think tanks close to business and the right have begun to warn about a sense of malaise and the realization that the "easy stage" in Chile is now over.

There is also a growing dissatisfaction with political parties and politics in general. Surveys conducted by the Centro de Estudios Públicos reveal that those who do not identify with any party increased from 21 percent in December 1991 to 42 percent in November 1996. Surveys also show that only 13 percent of respondents evaluate parties as doing well or very well, with most placing them at the bottom of the scale. Politics has been less and less the subject of conversation among family, friends, and co-workers during electoral campaigns. A perception of parties as purely pragmatic power machines, devoid of the kinds of principles that organized competition in the 1988 plebiscite and the first democratic elections, and ignorant of demands in the areas of human rights, the environment, equity, and others, has sustained that decline.

WHAT THE DECEMBER ELECTIONS MEAN

The December congressional elections provided emphatic expression of this dissatisfaction. First, a vastly publicized preelection voter registration cam-

paigned failed to excite over a million Chileans among the newly eligible voting-age population. Second, among those registered, 13.7 percent abstained from voting. Moreover, 13.5 percent of votes cast were voided, a number approximately 6 percent higher than in the previous election. In all, about 3.7 million people, of a total of 9.6 million of voting age, chose not to express any preference. Government officials promptly recognized this as a protest vote.

It is too early to discern fully the meaning of this vote; it may be a reaction to a sense of a lack of alternatives, that is, that votes will have little impact on policy, either because the electoral system is so structured, or because the direction of social and economic policy is so determined that it is perceived to be unchangeable. However, it should not be ruled out that voided ballots may reflect voter resentment at mandatory voting. Pinochet's constitution—which is still in effect—and accompanying laws established that while registration is not mandatory, voting is.

Beside the decline in participation and the protest vote, the most salient feature of the election was the strengthening of the right, especially the hard-line sectors within it. The Unión por Chile pact, which includes the UDI and the RN, obtained 36 percent of the vote, up 3 points from the 1993 congressional elections. But when combined with another list of independents on the right, the right's total share was slightly over 38 percent. Within the pact RN maintained its predominance with 17 percent of the vote, and UDI increased from 12 to 14 percent, accounting for most of the pact's growth. Independents and others within the pact obtained 5 percent of the vote.

Despite the RN's larger share of the vote, the momentum is with the UDI, which increased its number of senators from 3 to 9 while the number of RN senators dropped from 11 to 7; this makes the UDI the second-largest party in the Senate. The right gained 1 senator for a total of 18. Of these, only 2 belong to the "liberal" wing of the right; the rest are firm opponents of any reform to Pinochet's constitution. In the Chamber of Deputies the right opposition fell from 50 to 48 seats; the UDI increased its number of deputies from 16 to 21, while the number of RN deputies fell from 33 to 25.

On the left outside the government coalition, the pact led by the Communist Party received 7.5 percent of the vote, up from the 4.8 percent it obtained

in 1993. The Humanist Party obtained 3 percent, a significant increase from previous elections. The left is thus definitely a new factor in electoral politics, although it has failed to gain congressional representation since it is not part of the two largest vote-getting blocs.

The Concertación, which is formed by the Christian Democratic Party (PDC), the Party for Democracy (PPD), the Socialist Party (PS), and the Social Democratic Radical Party (PRSD), saw its share of the vote decline 5 points from the last election to 51 percent. This decline was almost completely attributable to the Christian Democrats, whose share fell from 27 percent in 1993 to 23 percent. The Socialists maintained their share at 11 percent while the PPD increased slightly to 12.5 percent. The most significant feature of these results is that the PPD and the PS now jointly have a slightly larger share of the electorate than the PDC.

PDC leaders had campaigned to make this election a primary that would determine the candidate for the presidential elections of 1999. The campaign backfired. Nonetheless, the intricacies of the electoral system determined that the PDC, the party with the greatest losses, elected all its candidates to the Senate. The government coalition will

have 20 senators (down one from 1993), of whom 14 are PDC, 4 PS, and 2 PPD. In the lower chamber the coalition maintains its majority at 70 deputies, of whom 39 will be PDC.

The Christian Democrats seem to have single-handedly absorbed the erosion of support for the government. The largest individual pluralities among Concertación candidates to the lower chamber were obtained by members of the PS or the PPD who have shown independent, less compromising stances on issues such as the environment, human rights, and the treatment of the military or Pinochet.

The major consequence is the strengthening of the hard-line right (in the sense that it militantly stands by Pinochet's constitutional legacy). The right's campaign, and UDI's in particular, deemphasized political and ideological issues and insisted on the power of personalities, of "doers," and a platform based on efficiency to solve *los problemas de la gente*, the real problems of real people. It borrowed from the managerial and personalistic style of its most popular leader, Joaquín Lavín. Lavín, a former functionary in Pinochet's government and currently the mayor of Las Condes, a well-to-do area of San-

[There is a realization that the "easy stage" in Chile is now over.]

tiago, was reelected in 1996 with nearly 70 percent of the vote, which cut across party lines. His closest allies in UDI won Senate seats in the two Santiago districts, defeating the more liberal candidates of the RN in their own pact. The winning sectors of the right thus wisely hid the real meaning of their success behind a populist-personalistic-managerial style.

But the real meaning of the right's improvement is straightforwardly political. It managed to bring to the Senate a number of Pinochet collaborators. They will be joined in the Senate by Pinochet, who takes a seat as a former president (although former President Aylwin is not allowed to do likewise because he served only four years), and by four former chiefs of the armed services designated in December 1997 by the National Security Council. Five other "institutional" senators also were designated.

THE OUTLOOK FOR 1999

After the election the right is confident that it can effectively challenge the government coalition and perhaps successfully compete for the presidency in 1999. This mood is compounded with the belief that an association with Pinochet's military rule is not an electoral liability, a belief underscored by the fact that much of the civil-military leadership of the dictatorship will be in the Senate.

The election results cleared the way for the possible nomination of Joaquín Lavín as a presidential candidate for the right. The RN will contest it and try to offer a candidate from its ranks, but the momentum is with UDI, and it is unlikely that a candidate from the RN could prevail in primaries, should such a mechanism be created. It is possible that divisions in the right may lead to two different candidates, but this would greatly diminish the pact's chances and it would be contingent on what happens in the Concertación.

Within Concertación itself the December results will probably lead to a shift in political strategies. It should become apparent that the main adversary is the right and its challenging power in Congress. For a moment during the campaign, the PDC leadership appeared more interested in fighting the PS and the PPD than on focusing the campaign against the right. The results will also shatter any considerations of a rapprochement between the PDC and liberal sectors of the right, since this element of the right was almost completely wiped out of the Congress. The

authoritarian-democratic cleavage has emerged even sharper after the election, and this ought to strengthen cohesion inside the Concertación.

The elections have enhanced the chances for a presidential nomination of Ricardo Lagos, the most popular Chilean politician, currently the minister of public works and the candidate of PPD-PS in the previous presidential primaries. This is a possibility that the PDC leadership wanted to avoid. PDC leaders attempted to make the party the indisputable leader of the Concertación, rejecting a joint ad campaign for the coalition and hoping to see electoral validation of their desire to have the coalition's presidential nominee come, for the third time, from their party. Although the elections have severely diminished these hopes, it is uncertain what form the competition for the nomination will take and what its outcome might be.

For the moment it appears that Concertación leaders will concentrate on securing a successful final stretch for the Frei government. A strategy for the last stretch of the government's term will not be easy, especially given the difficulties that will arise in pushing the government's program through the legislature. The government coalition has sufficient votes in the lower chamber (70 of 120) for bills that require a simple or qualified majority, and for bills of "organic" constitutional character. But it does not have enough for constitutional reforms. The situation is different in the Senate. The opposition, aided by the "institutional" senators, will have sufficient power to appoint committee presidents, and the quorum for the approval of certain bills will be raised with the incorporation of General Pinochet. Moreover, even a simple majority will be hard to obtain in the Senate; for this negotiations with the right will be required.

This, of course, will not be anything new for the government. Agreements have been reached several times with the opposition for the reform of the constitution (on the shortening of the presidential term from eight to six years; on regional and municipal administration; on the creation of the office of attorney general; and on the recent reforms to the Supreme Court). Numerous agreements also have been reached with the UDI on lesser issues dear to the government, such as the financing of educational reform. But it undoubtedly will be more of an uphill battle for the government, especially since legislative politics will be shaped by the inevitable presidential aspirations for 1999. ■

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Argentina: Questioning Menem's Way

MARK P. JONES

November 4, 1997, marked a milestone for Argentina: the longest period of democratic rule in the country's history. This new democratic era began with the assumption of power by President Raúl Alfonsín on December 10, 1983, which ended nearly eight years of military rule. The last time Argentina had experienced such a long stretch of democratic rule had been between 1916 and 1930, but this was terminated by a military coup. Now, unlike in 1930, there is no possibility of a coup, and the prognosis for the survival of Argentine democracy is extremely positive.

Since 1989, Argentina has undergone a transformation that has dramatically enhanced the country's economic and political stability. Nevertheless, the functioning of Argentina's political system continues to be troubled by several factors—factors that can be linked to the recent defeat handed to the ruling Justicialista Party (PJ, or the Peronist Party) in the 1997 congressional election.

ACHIEVING ECONOMIC STABILITY

President Carlos Saúl Menem assumed office on July 8, 1989, five months before the constitutionally mandated date of December 10; his early inauguration was indicative of the severe economic and social difficulties facing Argentina at the time. The Economist Intelligence Unit, in its 1989 third-quarter report on Argentina, noted that Menem was taking power "amid the worst hyperinflationary crisis ever seen in Argentina. Inflation in May alone was 78 percent a month, with the June figure

expected at over 100 per cent. . . . At the end of May the country was shaken by food riots which left 16 people dead; a state of siege was imposed. Real wages have collapsed and 30 percent of the population is reported to be below the poverty line. Argentina has been unable to service its foreign debt."

Menem launched one of Latin America's most dramatic and far-reaching structural adjustment economic reforms. The president's adoption of a neoliberal program represented a sharp break with his Peronist Party's traditional policies, which had featured a highly intrusive economic role for the state. The principal components of Menem's economic program were the containment of inflation, privatization, and deregulation.

Between 1983 and 1988 Argentina had experienced severe inflation, with average annual rates of over 300 percent, and by the final year of the Alfonsín administration a hyperinflationary annual rate of more than 3,000 percent. The cornerstone of Menem's anti-inflation program was the 1991 "Law of Convertibility," which pegged the Argentine peso to the United States dollar and required that the money supply have an equal amount of foreign reserves deposited in Argentina's Central Bank. Following the introduction of the convertibility law, the annual inflation rate fell to 25 percent in 1992 and to 4 percent in 1994; for 1996 and 1997 it has been less than 1 percent.

Menem also began to privatize state-held enterprises such as the national phone company and airline. Today few of the government's vast pre-1989 holdings remain under its ownership. The privatizations allowed the government to dramatically improve the quality of public services in areas such as telecommunications, energy, and transport; to eliminate the severe drain that most of the money-

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losing state holdings had placed on the national budget; and to use the revenue generated from the privatizations to fund programs designed to cushion the structural adjustment's impact on the public as well as build up the country's foreign reserves.

The Argentine economy is now in relatively good macroeconomic shape, with an average annual real GDP growth rate in the 1990s of 5 percent and a growth rate during the past 12 months of 8 percent. According to the November 1997 IBC *International Country Risk Guide*, Argentina has the third-lowest level of economic and political risk among 18 Latin American presidential democracies. This is a sharp contrast to 1989, when it was tied for fourteenth.

POLITICS BEFORE THE OCTOBER ELECTIONS

Paralleling this profound economic transformation were important changes in the Argentine party system. Three major trends marked the political landscape between 1989 and the months before the October 1997 Chamber of Deputies election. The first was the decline of the Radical Civic Union (UCR), the principal opposition to the Peronist Party since the end of World War II. The UCR began the current democratic period in banner form. In 1983 its presidential candidate, Alfonsín, won 52 percent of the vote while the party captured 51 percent of the seats in the Chamber of Deputies and 7 of the country's 22 governorships, including those of three of the country's four most populous provinces.

Between 1987 and 1995 the Radicals experienced a major decline. At its nadir in 1995 the UCR presidential candidate, Horacio Massaccesi, won a mere 17 percent of the vote while in the Chamber election the party managed to win only 22 percent of the seats. Perhaps more significant, the UCR was relegated to third place in the country's two most populous provinces (Buenos Aires and Santa Fe) and finished second in Capital Federal (the federal district), a traditional Radical balliwick. It is clear that alone the Radicals no longer represented a credible alternative to the PJ.

However, despite its decline, the UCR remained the only national opposition party. It was organized in all 24 electoral districts as well as in most municipalities. Furthermore, it possessed the second-largest share of seats in the Chamber (27 percent) and Senate (29 percent), and controlled five governorships and the Capital Federal mayoralty. Finally, 30 percent of the country's mayors were Radicals.

A second important development was the emergence of the center-left Front for a Country in Solidarity, or Frepaso. Frepaso was formed in 1994 as a union of four minor political groups. Its membership consisted primarily of former Peronists and members of small established center-left parties, with the remainder coming from the UCR and non-partisan backgrounds. From the start Frepaso lacked a significant party apparatus, with its principal strength the positive public image of its leaders, especially Carlos "Chacho" Alvarez and Graciela Fernández Meijide, who ran the dominant group within Frepaso, and José Octavio Bordón (although he left Frepaso in 1996).

While growing, Frepaso was not a viable alternative to the PJ, and did not seem likely to become one in the near future. Unlike the PJ and the UCR, Frepaso lacked any real semblance of a national organization or mass-based membership. Also, Frepaso members did not hold any governorships, and held only 1 and 9 percent of the seats in the Senate and Chamber, respectively, and less than 1 percent of the country's mayoralties.

Frepaso's electoral support continued to be confined to the country's large urban centers; with the exception of a few provinces, its support in the interior of the country was meager. Finally, Frepaso continued to be plagued by a lack of popular leaders other than Alvarez and Fernández Meijide.

A third trend during this period was the growing dominance of the PJ, which began with Menem's victory in the 1989 presidential election (49 percent of the vote), the concurrent Peronist victory in the Chamber of Deputies election (52 percent of the seats), and the achievement of an absolute majority of seats in the Senate (54 percent). The PJ emerged as the only Argentine political party that was electorally competitive in all the provinces and had sufficient support in the Congress and among the provincial governors to govern effectively.

Since 1989 the PJ had maintained an absolute majority of seats in the Senate as well as either a near majority or an absolute majority of seats in the Chamber of Deputies (as of mid-1997 the PJ held 51 and 56 percent of the seats in the Chamber and Senate, respectively). Since 1991 Peronists had held 14 of the country's governorships, including those of three of the four most populous provinces. Finally, since 1995 a Peronist had occupied the mayor's office in 58 percent of the country's municipalities, and in 73 percent of those municipalities

The electoral success of the Alianza should not be downplayed.

with more than 100,000 inhabitants. The party's dominance was perhaps best exemplified by Menem's overwhelming victory in the 1995 presidential election, in which he won 50 percent of the vote, with 29 percent going to Bordón (Frepasso) and 17 percent to Massaccesi (UCR).

THE BIRTH OF THE ALIANZA

Thus, the Argentine party system as of mid-1997 was dominated by the PJ. It was this scenario that confronted the principal opposition leaders three months before the October 26, 1997, congressional election. During the first half of 1997 there were numerous discussions between Frepasso and the UCR about allying for the congressional election, but these failed to produce an agreement. By late July 1997, however, Raúl Alfonsín, the head of the UCR party list in the province of Buenos Aires, found himself running a poor third in the opinion polls. He trailed the heads of the Frepasso (Graciela Fernández Meijide) and the PJ (Hilda "Chiche" Duhalde, wife of the provincial governor, Eduardo Duhalde) party lists.

Given the strategic importance of the province of Buenos Aires (it accounts for 38 percent of the electorate and for 35 of the 127 seats contested in the October election), the significance of the election for Eduardo Duhalde's 1999 presidential aspirations (as of July he was considered the "natural" candidate of the PJ), and a desire to avoid a devastating electoral defeat, Alfonsín decided to pursue an alliance with Frepasso. He initiated direct contact with Alvarez and Fernández Meijide as well as with key UCR politicians, most of whom had previously expressed a strong desire to form an alliance. The result was the rapid formation of the Alliance for Work, Justice, and Education (the Alianza) in Capital Federal and Buenos Aires, the political homes of the principals involved in the negotiations. In the remaining weeks before the official registration of the party lists, additional provinces were added to the Alianza, totaling 14.

The Alianza failed to coalesce in ten provinces. Four of these provinces are governed by the UCR. During the 1995–1997 period these UCR governors faced strident opposition and criticism from Frepasso provincial legislators and were unwilling to form an alliance, especially since they were confident of their ability to win alone. In the remaining six provinces the Alianza failed due to the inability of Frepasso and the UCR to agree on the distribution of positions on the proposed Alianza party list as well as because of ideological differences.

In addition to its focus on the October elections, the Alianza established a basic structure from which it would function through the 1999 presidential election. Frepasso and the UCR also agreed to present a single Alianza presidential candidate in 1999.

The election itself was a tremendous success for the Alianza and a minor disaster for the PJ. While the PJ had expected to lose some ground, the severity of the loss was unexpected. At the national level the Alianza (which ran candidates in only 14 provinces) won 36 percent of the vote. Summing those provinces where the UCR and Frepasso ran separately, the Alianza won 46 percent of the vote and 62 of the 127 seats. In contrast the PJ won 36 percent of the vote and 50 seats. Center-right provincial-based parties won the majority of the remaining votes and seats. Of particular importance was the Frepasso victory in the province of Buenos Aires, where Fernández Meijide garnered 48 percent of the vote to Chiche Duhalde's 41 percent. Not only did this victory make Fernández Meijide the front-runner for Frepasso's presidential nomination, but it also damaged Eduardo Duhalde's presidential aspirations.

The electoral success of the Alianza should not be downplayed. Nevertheless, the most salient consequence of the Alianza was not its electoral victory but the creation of a credible government alternative to the PJ. Before the Alianza's formation it was an alternative conspicuously absent.

EXPLAINING THE RESULTS

Despite the country's strong economic growth rates and very low levels of inflation, the governing PJ was soundly defeated at the polls. Its defeat can be linked to the Alianza's public support for the current economic model and, at the same time, a high level of unemployment, serious corruption problems, and deficiencies in the country's governmental institutions.

In 1995 Menem effectively campaigned on the theme that he was the creator and defender of the neoliberalism that had provided Argentina with much-needed economic and political stability and that the opposition candidates were a threat to this model. Recognizing the effectiveness of this theme, the Alianza sought to neutralize it by proclaiming its general support for the major components of the current economic model. The gambit was successful. The Alianza effectively conveyed to the public that voting for it would not jeopardize the economic stability many had come to cherish. In the key province of Buenos Aires, an August 1997 opinion survey found that 45 percent of the population

considered the Alianza best able to guarantee economic stability while 41 percent believed the PJ was better suited. With the issue of economic stability moot, voters were free to focus on other concerns, most of which tended to be unfavorable for the PJ.

While the Alianza expressed support for the economic model (although postelection Alianza statements suggest that this support is far less universal than was portrayed during the campaign), it also demonstrated considerable concern for the problem of unemployment. Under Menem the unemployment rate has steadily grown from a low of 7 percent in 1989 to a high of 18 percent in 1995, dropping to 16 percent in May and 14 percent in October 1997.

The salience of the unemployment issue is demonstrated by a poll conducted in the province of Buenos Aires. Sixty-three percent of the respondents identified unemployment as the principal problem facing the country, while 75 percent considered unemployment to be one of the country's two most important problems. Further, in a nationwide November 1997 poll, 72 percent of the respondents with jobs indicated that they were either very worried or worried about being without work.

Corruption also ranked high among Argentines' concerns, with 89 percent stating in a 1996 poll that the level of corruption in Argentina has increased a great deal in the last five years. Corruption was rated by 43 percent of Buenos Aires residents as one of the top two problems facing the country.

Their concerns have been corroborated by outside observers. According to a 1996 report by Transparency International, Argentina was 1 of only 6 (out of a total of 54) countries where corruption increased between 1980 and 1996. In its 1997 report TI rated the level of corruption in Argentina as the eleventh highest among the 52 major countries surveyed.

The Alianza used the theme of corruption effectively during the campaign. This effectiveness stemmed in large part from a public perception that many PJ politicians are corrupt while most Alianza politicians are not. When asked whether they thought 13 nationally prominent politicians were corrupt, Buenos Aires residents overwhelmingly identified PJ politicians as corrupt and Alianza politicians as not corrupt. The three politicians considered to be the most corrupt were Peronists: President Carlos Menem (51 percent thought he was corrupt); the president of the Chamber of Deputies, Alberto Pierri (46 percent); and Buenos Aires Governor Eduardo Duhalde (43 percent).

Conversely, the three politicians viewed as least corrupt were from the Alianza: Capital Federal Mayor Fernando de la Rúa (only 7 percent thought he was corrupt), Congresswoman Graciela Fernández Meijide (8 percent), and Chamber Minority Leader Federico Storani (11 percent). When asked who they thought was best able to confront the problem of corruption, 58 percent identified the Alianza while only 22 percent identified the PJ.

The PJ was also hurt by a generally negative perception of the country's democratic institutions, and by popular dissatisfaction with the democratic system's functioning. The Argentine population overwhelmingly supports democracy, with 73 percent stating that democracy is preferable to any other form of government. However, only 34 percent of the population is very or fairly satisfied with the way democracy works in Argentina.

Several aspects of the Argentine democratic system, in addition to government corruption, can be identified as problematic. These include Menem's use of "decrees of urgent necessity" to bypass Congress and the failure of the Peronist-dominated Congress to pass legislation needed to give life to several important institutions created by the 1994 constitutional reform. Nevertheless, while vitally important for the quality of democracy, these concerns play a fairly marginal role in the voting decisions of the general population. It is the state of the judiciary that has resonated most with the mass public.

The judiciary has become increasingly viewed as dispensing unequal justice and being subject to political influence and corruption. Currently less than 25 percent of the population has either a great deal or some confidence in the judiciary. Furthermore, 87 percent of Argentines do not believe that all Argentines are equal under the law. Of 17 Latin American countries surveyed, this percentage is second only to that in Brazil.

When asked which party they felt was best able to ensure that the judicial system would function satisfactorily, 58 percent of Buenos Aires residents listed the Alianza and 24 percent the PJ. As was the case with unemployment and corruption, the theme of the functioning of the judicial system worked to the electoral advantage of the Alianza.

POLITICS IN ARGENTINA, 1998-1999

Between now and the 1999 presidential election, three important issues will dominate Argentine politics. The first is President Menem's relationship with Congress. While the PJ will continue to have an absolute majority in the Senate, the government

will have to operate with a reduced contingent in the Chamber of Deputies. The current distribution of the 257 Chamber seats is: the PJ 119 and the Alianza 106, with the remaining 32 seats divided among 18 center-right provincial parties that with two exceptions effectively compete in only one province. In the past a large proportion of the provincial parties provided Menem with the votes needed to pass legislation (often when he could not obtain the backing of the entire PJ Chamber delegation). During the next two years it is unlikely that the assistance of all of these former allies will be as reliable as in the past, although the reduced support should be sufficient to pass most legislation (assuming a unified PJ).

Given less reliable support from the provincial parties and divisions within the PJ bloc, it is likely that for some important legislative bills Menem and the PJ congressional leadership will attempt to gain the endorsement of the Alianza. The goal of this strategy would be to achieve a bill's passage while at the same time forcing the Alianza to assume responsibility for legislation that in some instances may not be especially popular with the public.

The second important issue will be the consolidation of the Alianza as a political entity. Allying for the 1997 election was relatively easy. The Alianza must now confront the difficult tasks of remaining united (particularly in the legislature), defining a single position on major policy issues, and ironing out the details for the selection of candidates (especially the presidential candidate) for the 1999 elections. In spite of the conflict these tasks are likely to generate, it appears probable that they will be successfully completed because of the likelihood of a PJ victory if the Alianza breaks apart.

Perhaps the most important decision to be made by the Alianza is who will be its presidential candidate. A primary restricted to Frepaso and UCR affiliates and independents is planned for March 1999 between one candidate from Frepaso and one from the UCR (although the primary will be canceled if the two sides can agree on a consensus candidate). The current favorites are Graciela Fernández Meijide for Frepaso and Fernando de la Rúa for the UCR.

The final important issue is the relationship between Menem and his opponents within the PJ

and the selection of the PJ candidate for the 1999 presidential election. Menem is likely to confront increasing intraparty resistance to his neoliberal economic program. One of the principal lessons many in the PJ drew from their recent defeat was the need to "reperonize Peronism." This, combined with Menem's relatively low popular approval rating, suggests that there will be less PJ support for privatization, labor reform, and fiscal discipline, and more support for public sector expenditures and subsidies.

Enmeshed in this intraparty conflict is Menem's often contentious relationship with Eduardo Duhalde. As governor of the country's largest province and with a provincial PJ contingent in the Chamber of Deputies of 36 under his direct command, Duhalde is the second most powerful force in the PJ. While his presidential aspirations were heavily damaged by the PJ's defeat in the province of Buenos Aires (representing a silver lining for Menem in an otherwise dark election), he nevertheless remains the front-runner for the PJ presidential nomination.

HALF EMPTY, HALF FULL, OR BOTH?

One can look at the Argentine democratic system from either a half-full or a half-empty perspective. The half-full perspective highlights the current economic and political stability, and contrasts it with Argentina's history of chronic instability. It also underscores the considerable civil and political liberties enjoyed by the population and the country's vibrant free press.

The half-empty perspective focuses on the negative aspects of politics during the 1990s. These include corruption and abuse of power by some Peronist politicians and their associates, a politicized and unequal judicial system, a lack of respect for the constitutional "rules of the game," and a popular perception that the government is not sufficiently concerned about the declining living standards of a large part of the population. The proper perspective would acknowledge Argentina's achievements in terms of economic and political stability while at the same time pointing out the system's deficiencies and emphasizing that improvements are still needed. ■

For Brazil, "the foundations of consolidated democracy are in place." But weaknesses remain and political reform, especially of the party system, is required as an essential counterpart to the macroeconomic policy reforms of recent years."

Assessing Brazil's Political Modernization

LINCOLN GORDON

How well does Brazil's political structure fit the category of "advanced democratic nation"? If we define it as a condition of stable pluralist democracy, with representative government based on free elections, competition among political parties, constitutional protection of individual and minority rights, and unconditional acceptance of electoral results, Brazil in the late 1990s appears to make a good fit in all respects but one.

The exception does not concern a threat from the armed forces. They have assumed political power several times in Brazil's history, but show no disposition to reassume that role. It is instead a question about the stability of the political system: how far democracy can be judged consolidated.

The doubts about stability arise from structural defects in the division of power between the center and the states and the separation of powers at the federal level, systemic weaknesses in the political parties, operational weaknesses conducive to corruption, and impunity for abuses of civil liberties—all combining to undermine popular respect for government institutions and politicians.

While a national democratic ethos exists, it will remain precarious until there is a resumption of sustained economic growth without inflation and sufficient political reform to channel the interest groupings and political aspirations of the electorate into workable public policies. Political reform might involve the formal structure of government, the electoral system, the character of political parties, and the relations between state and society. We review

briefly here the main reform issues that have emerged since the restoration of civilian government.

THE PRESIDENTIAL IMPERATIVE

For many decades, Brazilian political and intellectual circles have debated the relative merits of presidential and parliamentary systems of government. During the congress charged with drafting a new constitution in 1987 and 1988, a shift to parliamentarism (or mixed "prime minister-presidentialism," as in France) was strongly supported and seemed likely to prevail; it was defeated, however, by a vote of 344 to 212 because of intense opposition by President José Sarney and on condition that the question be submitted in 1993 to a plebiscite. In the run-up to the 1993 vote, prominent political scientists, backed by widespread agreement among international scholars, argued strenuously for the change, pointing to Germany as their preferred model. Public opinion polls seemed to foreshadow its adoption in the wake of corruption scandals and the ouster of President Fernando Collor in late 1992. Nevertheless, when the plebiscite took place in April 1993, parliamentarism was routed by a majority of 55 to 25 percent (with 20 percent of the ballots blank or spoiled).

In this author's opinion, the desire for a direct connection between the electorate and the chief executive is an insuperable obstacle to parliamentarism in Brazil. After a century of restricted suffrage and two decades of military government, Brazil's entire adult population is at last participating in the selection of the president. In the absence of well-established national parties with recognized leaders, voters in a parliamentary system could not safely predict who might emerge as prime minister from political jockeying among members of Congress in Brasília. Moreover, since congresspeople are generally held in very low esteem, the public

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at large would not entrust them with selection of the nation's chief executive. Viewed in this light, the overwhelming rejection of parliamentarism in 1993 was not a surprise.

Short of a basic structural change, there is ample room for improvement in executive-legislative relationships. On paper, the 1988 constitution gives the president a large role in legislation. He has exclusive initiative on major issues of administrative organization and the size of the armed forces, and can secure priority consideration of such bills. He can veto parts of bills as well as whole bills, subject to overriding by an absolute majority of both houses (the Senate and Chamber of Deputies) of the National Congress in joint session.

Most important in practice, he can issue decree laws (*medidas provisórias*, or provisional measures) on "important and urgent matters" that have the force of law for 30 days. In principle, such measures lapse, retroactively, unless confirmed by Congress within the 30-day deadline, but in practice they have been kept in force through repeated re-issuance. Both the constitutional wording and the 1988 legislative history indicate that this power was intended for use only in genuine emergencies, but the practice under four presidents has made it a customary mode of legislation.¹ It cannot be used for constitutional amendments, which must be approved in two separate sessions by three-fifths majorities of the full membership of each house. Since the 1988 constitution is a lengthy document replete with provisions treated in most countries by ordinary legislation, and since the common practice of legislative absenteeism amounts to de facto negative votes, this limitation on provisional measures is more consequential than might be supposed from a mere reading of the constitutional text.

CONTROLLING THE PURSE STRINGS

Another arena of potential conflict between the executive and Congress is the management of public finances, extensively and confusingly dealt with in the 1988 constitution. In practice, monetary policy is under the control of the Finance Ministry and the Central Bank, while multiyear and annual revenues and expenditures are initiated by the executive but then subjected to detailed legislative

revision. The constitution divides types of taxation among federal, state, and municipal levels, and then transfers substantial portions of federal revenues to the state and municipal levels, reserving a sizable share of each level's revenue for spending on education.

The weakness and fragmentation of Brazil's political parties rule out the possibility of coherent congressional initiatives on broad economic or social policy issues. These initiatives can come only from the executive branch. But the party weakness and fragmentation also rule out coherent confrontation with the executive on policy grounds. Instead, the capacity of Congress to delay and obstruct is used as bargaining leverage in seeking federal projects, patronage, and financial assistance to states and *municípios* (counties or townships), making the path of reform steep and rocky, even for a popular president like Fernando Henrique Cardoso. Despite an unprecedented electoral victory in 1994 and a nominal congressional majority for the parties represented in his cabinet, Cardoso suffered numerous postponements and several serious defeats on proposed constitutional amendments during his first three years in office. Although there is no prospect for parliamentarism as a remedy for these difficulties, they could certainly be reduced through less ambitious measures for party restructuring.

THE CENTER AND THE STATES

Brazilian culture has been marked by regional differences from the time of the earliest European settlements, reflecting the diversity of economic activities and the social origins and interests of the various streams of immigration. The formal political structure, however, was centralized before independence. Today's coastal states are descendants of the "captaincies" established by the Portuguese crown in the 1530s, but in 1548 they were subordinated to a colonywide governor-general, first residing in Salvador da Bahia and after 1763 in Rio de Janeiro.

The Portuguese court's removal to Rio in 1808 to escape Napoleon's invasion of Portugal strengthened the capital's power in relation to the captaincies. When Pedro I declared Brazil's independence in 1822, therefore, sovereignty was concentrated in his hands as emperor. The presidents (now governors) of the provinces (now states) were selected by him. Imperial Brazil was a unitary state, transformed into a federation only after the republican revolution of 1889. The federal status was formalized by the constitution of 1891 in the nation's new

¹Scott Mainwaring reports that until May 1995, the four presidents since the restoration of democracy had issued 1,004 provisional measures, 640 of which were renewals. See Scott Mainwaring and Matthew Soberg Shugart, eds., *Presidentialism and Democracy in Latin America* (Cambridge: Cambridge University Press, 1997), p. 63.

name: the United States of Brazil, now the Federative Republic of Brazil.

This history contrasts with federations, such as the United States and Switzerland, formed by the voluntary association of previously sovereign component states. Over the next century, power alternated between devolution to the states and concentration at the center. The Old Republic in Brazil (1891–1930) carried devolution to the extreme, with power concentrated at the state level in São Paulo and Minas Gerais. That tendency was sharply reversed by Getúlio Vargas after 1930; he named “interventors” in place of elected governors and assumed total power in the *Estado Novo* (New State), the authoritarian regime by which he ruled Brazil from 1937 to 1945. After the military deposed Vargas and reinstated democracy during the Second Republic (1945–1964), Brazil returned to a less extreme decentralization, which was again reversed by the military regime that took control in 1964 and remained in power until 1985. With the constitution of 1988, decentralization has been promoted through a new device: the earmarking of large proportions of specified federal tax revenues for reallocation to states and municípios, often without a corresponding allocation of functions.

The constitution overweighs the political power of the smaller states. Since 1891 there have been three senators per state. In the lower house as well, the American model of proportionality to population has been modified to favor the small states, usually through ceilings on the number of deputies for the larger states and floors for the smaller. In the latter stages of the recent military regime, when opposition was concentrated in the more developed southern states, the government intensified the over-representation of the less populous states of the northeast and north. This bias carried over into the 1988 constitution, which provides a maximum of 70 deputies per state and a minimum of 8. Unequal representation has also been augmented by the admission to

statehood of several thinly populated Amazonian territories and the carving out of new states from Mato Grosso and Goiás. As a result, a deputy from São Paulo on the average now represents 450,000 inhabitants, while the population bases for deputies from Roraima, Acre, and Amapá are only 27,000, 36,000, and 52,000, respectively. Because they also have equal representation in the Senate, this over-weighting of the least-developed regions is a significant impediment to modernizing reforms. It also reinforces the parochialism of Congress and the institutional obstacles to the development of nationwide political parties.

All the states are financially dependent on the central government, both for budgetary appropriations and for a variety of loans and “bailouts,” although the wealthier southern states, especially São Paulo, are close to self-sufficiency. Yet the political

influence of the states is pervasive. In contrast to the United States, governors are generally more powerful than senators. Congresspeople give up seats for mayoralties of even moderate-sized municípios. New municípios are frequently created to provide additional patronage jobs, paid out of state or federal funds, even when local resources are not able to sustain them.² The electoral mechanics for the Chamber of Deputies give many governors a piv-

otal influence over reelection prospects for congresspeople (*deputados*). Coupled with the extreme weakness of national parties, this system makes the voting behavior of state *bancadas* (delegations in Congress) highly responsive to the governors, even when deputados nominally belong to different parties. The resulting influence of governors over national legislation can be used, as was noted, to bargain over federal projects, patronage, and financial assistance. It constitutes a substantial hindrance to coherent national policymaking.

THE ELECTION GAME

The fundamental weakness in Brazil's political structure lies in the nearly total absence of broad-based political parties mediating between the electorate and the government, despite a multiplicity of nominal parties created for electoral purposes. That weakness derives in part from the relatively short experience with a broadly based electorate, which began only with the Second Republic in 1945 and then suffered a long interruption from 1964 to 1985.

A constitutional amendment in 1985 opened the political market to a proliferation of parties with little or no programmatic content.

²An article in the August 17, 1997, *Estado de São Paulo* reported that the number of municípios increased from 3,990 in 1980 to 4,979 in 1995 and 6,040 in mid-1997, 533 of which had been created during the previous six months. A constitutional amendment was passed by Congress in September 1996 to restrain this process, but it has not yet been put into force by the needed complementary statute.

It is greatly exacerbated by Brazil's peculiar electoral mechanics for both federal and state legislators.

During the Second Republic, the political scene was dominated by three national parties. Two—the Social Democratic Party (PSD) and the Brazilian Labor Party (PTB)—had been organized by Vargas before the termination of the *Estado Novo* in 1945. The third, the National Democratic Union (UDN), brought together elements that had opposed Vargas during most of the 1930s and 1940s. By the early 1960s, it seemed possible that they would gradually take on the roles of national parties like those found in Western Europe: the UDN right of center, the PTB left of center (with an extreme wing that included significant communist elements); and the PSD as a centrist balancing group. But in 1965 the military regime dissolved the three parties and put in their place a two-party system decreed from on high. When a multiparty system again became possible in 1979 as part of the “guided transition” from military control, these parties of the Second Republic were not revived, showing that they had not sunk broad roots in Brazilian society like the major political parties of Chile, Argentina, or Germany.

In reaction against the two-party straitjacket imposed by the military regime, a constitutional amendment in 1985 opened the political market to a proliferation of parties with little or no programmatic content. The parties of the late 1990s are (except for the small communist groups) creations of the last two decades, lacking historical roots or traditions. Some of them are personalistic groupings tied to charismatic individuals. In the Chamber of Deputies elected in 1994, with 513 seats in total, 17 parties were represented, of which 8 had more than 30 members and the largest only 107. Party cohesion and loyalty are weak; there is no penalty for changing party affiliations (over 250 changes were recorded in the Congress elected in 1991).

Indeed, except for the Workers' Party and the communists, party discipline is loose, with congresspeople frequently voting against positions favored by their parties' majorities. Of the three parties holding the most seats in the Chamber elected in 1994, it is difficult to make more than broad characterizations. Thus the Party of the Liberal Front (PFL) is right of center. The Social Democratic Party of Brazil, whose founders included President Cardoso, began in 1988 as a left-of-center break-away from the Party of the Brazilian Democratic Movement but shifted toward the center or even center-right as macroeconomic stabilization became

the focus of the Cardoso administration. The Party of the Brazilian Democratic Movement itself was founded in the 1970s by opponents of the military regime during the transition back to democracy, but has no consistent ideological position beyond being vaguely in the center; its voting patterns are often sharply divided. Along with many smaller groupings, it is in a category called “catchall parties”: nonprogrammatic, providing little discipline in congressional voting, accepting candidates with a wide variety of ideological histories, and subject to frequent party switching.

In contrast, the Workers' Party has a genuine grassroots base in the electorate. It started with the São Paulo metallurgical unions, although today its greatest strength is among public employees. It requires party discipline from its candidates, uses intraparty primary elections for their selection, and demonstrates remarkable cohesion in congressional voting. In organizational aspects, therefore, it resembles parties in more mature democracies. However, like many other social democratic or socialist parties in both the developing and the developed world, it is sharply divided on such basic policy issues as how to adjust to the end of the cold war, the discrediting of state-run enterprises in competitive arenas, the proper place for Brazil in a rapidly changing world economy, and the need for fiscal discipline as an essential ingredient of macroeconomic price stabilization.

As has been noted, geographical representation of the electorate is skewed, even in the lower house, by the severe overweighting of small and thinly populated states that are also the least developed economically and educationally. The electoral districts are all statewide. The individual voter casts a ballot either for a specific party or an electoral coalition of parties formed to contest a particular election in that state, or for a single candidate who is affiliated with a party. From state to state, electoral coalitions (sometimes called alliances) need not be made up of the same group of parties. In practice, most voters cast their ballots for a specific candidate. Ballots are sorted by parties (or by party alliances) and the state's total number of seats is then distributed among parties in proportion to the votes cast. The quota for each party (or alliance) is then assigned to the individual candidates receiving the most votes within that party or alliance grouping; they become the elected members of the Chamber of Deputies.

This system, known as open-list proportional representation with statewide districts, contrasts

sharply with voting procedures for federal and state legislatures in the United States and most other democratic electoral systems. The very large districts make it easier for small parties to elect one or a few deputados, thus encouraging the multiplicity of parties. Fringe parties can be formed mainly to secure a morsel of free television time for sale to other parties in a coalition. The large districts also impede direct contact between constituents and representatives, undermining the basic concept of responsibility to the electorate. The open-list system in effect merges the intraparty selection of candidates (the primary in the United States) with the interparty general election. Thus, for an individual candidate, a battle against other candidates from the same party is likely to be more rewarding than fighting competing parties. A single big name in a party may drag in several unknown and unqualified fellow members. The voter is faced with a baffling array of numbers, names, and party labels. It is difficult to imagine electoral mechanics more adverse to the classic function of democratic political parties.

The absence of effective accountability permits legislators to regard their offices more as personal prizes than as public trusts. At both federal and state levels there are lavish legal perquisites in office expenditures, housing and travel allowances, and extra pay for special sessions, along with frequent examples of nepotism and outright vote-selling. They are often denounced in Brazil's totally free and very energetic press, but only rarely punished at the polls or through the courts afterward. Beyond direct personal advantage, congressional attention is heavily concentrated on what Brazilians call "physiological politics," that is, job creation and appointments and local public works projects, rather than on broader interest groupings or public policy issues of national concern.

Although the word *fisiologismo* is a typically light-hearted Brazilian coinage, its substance is a universal component of democratic politics. In the

United States, it is called pork and patronage, provided by officeholders in return for votes. At the turn of the twentieth century, this was the basis of machine politics in the large cities, in the mold of New York's Tammany Hall. In democracies with only a few large parties, however, a greater share of political attention goes to private interest groups, which seek favorable legislation in return for their financial and organizational support of a party's candidates. And a large share of political attention and discourse goes to a third element: public interest politics, in which votes are sought in order to promote the adoption of broadly defined policies in the national interest, such as macroeconomic growth, price stability, improved education and health care, environmental protection, public safety, administrative efficiency, or national security. These issues all play some role in Brazilian politics, but com-

pared with more mature democracies the proportion of *fisiologismo* is overwhelming. This is partly the result of the multiplicity of small, essentially nonprogrammatic parties generated by the electoral system. Not surprisingly, opinion surveys show that while democratic institutions are generally favored, politicians, especially legislators, are held in low esteem.³

Brazilians have traditionally regarded a degree of corruption as normal, especially if it caters to family or patriarchal relationships.

CURTAILING CORRUPTION AND VIOLENCE

Corruption and violence are the dark side of political underdevelopment, reflecting failures in the rule of law. In most countries they occur together, although there are exceptions. Holding them within bounds requires substantial institutional development, without which they can badly impede economic development and undermine confidence in the political order.

Both in folklore and in practice, Brazilians have traditionally regarded a degree of corruption as normal, especially if it caters to family or patriarchal relationships. That view is implicit in the term *jeito*—a way of getting around inconvenient regulations. Another saying distinguishes "mere laws" from "laws that really matter." Favoritism for relatives and friends and kickbacks on public contracts have long been taken for granted, along with tax-avoiding double bookkeeping by corporations (known as "*catxa dots*"—the second treasury). A twice-elected governor of São Paulo in the 1960s was not embarrassed by the motto "Steals but Does!" It is not surprising that a recent business

³José Alvaro Moisés reports that a late 1989 political culture survey evaluating the performance of politicians listed the following total results: "Take care of friends and relatives," 30.1 percent; "Get rich off public money," 44.8 percent; "Defend constituents' interests," 9.1 percent; "Other and Don't Know," 16.1 percent. See "Elections, Political Parties and Political Culture in Brazil: Changes and Continuities," in *Journal of Latin American Studies*, vol. 25 (1993), p. 602.

survey of 54 countries by Transparency International, a nongovernmental organization based in Berlin, ranks Brazil as the fifteenth most corrupt.

A parallel tradition tolerates a degree of political violence, especially in the smaller and less developed states of the northeast and Amazonia, where land-grabbing with the help of hired thugs (*jagunços*) has been common, and family and clan feuds are sometimes maintained over decades. Violence in connection with land reform has been joined by a new focus of violence that has developed around drug trafficking in the larger cities, especially Rio de Janeiro.

It is plausible to expect that economic and social modernization will in time reduce the levels of Brazilian political violence, following patterns already established in the southeast and south of the country. Corruption is likely to be more tenacious, since it is linked to underpaid civil servants and police forces largely appointed through patronage, poorly enforced systems of business and public accounting, inadequate control of both public and private financial institutions, and lavish political campaign expenditures, the availability of free television time notwithstanding.

On the brighter side, the Brazilian public since the restoration of civilian government has become more conscious and less tolerant of violence and corruption. In 1992 a combination of a vigorous free press, family and personal rivalries, and diligent congressional inquiry brought to light the massive scale of corruption engineered by President Collor's campaign manager, P. C. Farias, leading to the first impeachment of a sitting president in Latin American history. Opinion surveys in Brazil revealed deep civic pride in securing this dramatic punishment through constitutional procedures. Subsequent parliamentary committees of inquiry unearthed major legislative corruption involving budgetary manipulations and a large-scale fraudulent misuse at state and municipal levels of bond issues intended to finance judicial settlements. Farias was jailed for a time; a number of congresspeople were expelled; and a state governor was nearly impeached. Major scandals in the banking sector involving both government and privately

owned banks have encountered severe criticism in the media and in some cases led to fines for committing white-collar crime.

Privatization reduces opportunities for corruption in public contracting and hiring. Tentative steps toward professionalization of the civil service were taken by Vargas before World War II, and there are islands of high technical competence in several government ministries and the Central Bank. On the other hand, payrolls at all levels of government continue to be padded with thousands of patronage appointments. Civil service reform, especially in state and municipal bureaucracies, remains a critical necessity if corruption is to be brought within tolerable limits.

THE LARGER TASKS AHEAD

The modernization of Brazil's political structure is at an intermediate stage—less advanced than the economic structure but more advanced than the social. The foundations of consolidated democracy are in place: the rule of law, respect for civil liberties, an independent judiciary, freedom of political organization (now including a wealth of nongovernmental organizations), vigorously critical and competitive media, and ultimate responsibility to an all-inclusive electorate. The weaknesses lie in an absurdly over-detailed constitution, the educational deficiencies and lack of modern-sector employment for a large fraction of the population, the antiquated structure of public employment, and the absence of political parties capable of crystallizing the large issues of national direction into workable form for guidance by the electorate and legislative resolution.

These weaknesses are widely recognized and some remedial action has been taken in recent years. Those efforts, however, have not sufficiently recognized the strategic priority of political party reform, linked to electoral mechanics and fairer geographical representation. Reform on those fronts would facilitate progress on all the others. They are an essential counterpart to the macroeconomic policy reforms of recent years and are central to the prospects for full consolidation of democratic institutions in Brazil. ■

"After 100 years of the American century in Puerto Rico, the Puerto Rican nation is stronger than ever. [That century] has gone through three stages: tutelage, self-government, and self-determination. None has solved the issue of a nation within a nation. Congress is left with one last option: to exercise its constitutional power to 'dispose of the territory' and grant it sovereignty in 1998."

The Puerto Rico Question Revisited

JUAN M. GARCÍA PASSALACQUA

For the people of Puerto Rico, the twentieth century began on July 25, 1898, with the American invasion that wrested the island from Spain, and ended on November 14, 1993, with a vote against becoming the fifty-first state.

A few months before the 1993 vote, *The New York Times* had baptized the exercise "the vote of identity," which is precisely what it was.

The vote's antecedent was America's reevaluation, begun in 1975, of its relationship with its remaining "territories" (of which Puerto Rico was the largest). Prompted by the defeat in Vietnam and proposed in the last days of the Nixon administration, the reevaluation of Puerto Rico's commonwealth status was formally undertaken by the Carter administration. Postponed by President Ronald Reagan, it was reactivated by President George Bush in a specific request to Congress for self-determination in his State of the Union address of 1989.

The ensuing debate in Congress led to negotiation and consultation with political parties in Puerto Rico between 1989 and 1991, a process that failed when a powerful bloc of Republican senators declared their opposition to statehood for Puerto Rico. The first effort at decolonization had failed.

The anti-statehood sector in the Senate argued that any initiative on Puerto Rico's status must come from Puerto Rico. The local plebiscite held in 1993 fulfilled that request. Statehood lost. Now the White House and Congress would have to respond.

The vote, with its unequivocal affirmation of *la patria* (the fatherland), had three short-term effects. First, it delegitimized the status quo when the winners insisted on a "bilateral compact by mutual consent" with the United States (instead of the present territorial self-governing condition under the plenary powers of Congress). The new definition won the plebiscite. Second, it defeated the annexationist, or pro-statehood proposal for a "*jibaro* (creole) statehood" with Spanish as the official language. And third, the results put pro-independence forces in a position to help one of the other two options—statehood or the new definition of commonwealth—obtain an absolute majority by adding their votes against the other. The only possible reading of the results for Washington was a rejection of both territorial colonialism and annexation.

The 1993 vote also had a long-run effect: it liberated Puerto Ricans from the negation of nationality, the result of the persecution of pro-independence followers between 1947 and 1987, and it produced a strong affirmation of cultural nationalism by an absolute majority of public opinion.

RESPONDING TO THE PLEBISCITE

Ten days after the vote, Congress issued its first formal reaction: the ranking Republican on the House Committee on Resources, Don Young from Alaska, submitted a bill to incorporate Puerto Rico into the United States (an option that no one had voted for). Rejected by all parties in Puerto Rico, the bill was withdrawn. Democrats, for their part, promised to "evaluate improvements to commonwealth," a position supported publicly by Vice President Al Gore.

In the November 1994 general elections, the Republican Party gained control of Congress.

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Young, now the chairman of the House Committee on Resources, announced that any improvement in commonwealth status was "improbable" because the winning formula of commonwealth as defined in the 1993 ballot was "unviable." One year after the vote, the effective response from Washington was—nothing.

On December 5, 1994, a White House Interagency Group on Puerto Rico was appointed. Instead of the political status of the island, the first two matters taken up were tax exemptions for multinationals and the presence of United States armed forces in Puerto Rico.

In January 1995 the House Republican leadership formally responded to the plebiscite by proposing—as an "improvement" to commonwealth status—"the imposition of federal taxes in exchange for welfare benefits." Governor Pedro Rosselló rejected the proposal, saying it was "insufficient" because it did not include "political equality." The Republican proposal of "taxes for welfare" was accompanied by an attack by the Democratic administration's Treasury Department on the "corporate welfare" of island multinationals (which had been defended by the winners in 1993).

Faced with the silence on status from the Clinton administration and Congress's determination to incorporate the territory with "taxes for welfare," a new political group called Acción Democrática Puertorriqueña (Puerto Rican Democratic Action), led by former *independentistas* and *autonomistas*, went to Washington to propose "free association" (existing in the former Pacific trust territories since 1986 as a bilateral treaty between two sovereign nations) as the United States response.

At that moment the United States military announced plans to move its Southern Command to Puerto Rico and to establish a military radar on the island, arguing that both installations were needed to fight drug trafficking in the Caribbean Sea. The message seemed clear: if there were to be a sovereign, free association between Puerto Rico and the United States as a result of the rejection of annexation, military considerations would be a top concern.

In October 1995, the House of Representatives finally held hearings on the 1993 plebiscite. The White House officially defended "commonwealth status as is" and promised "improvements" to it, including the defense of multinational tax exemptions. Not satisfied, the leaders of the pro-commonwealth Popular Democratic Party, which had proposed the formula that won the plebiscite,

demanded from the White House a "clear account" of what had been established as a commonwealth in 1952 and defended as such before the United Nations in 1953.

The pro-statehood New Progressive Party and the Puerto Rican Independence Party demanded in unison that Congress hold a new plebiscite in 1998, the hundredth anniversary of the American invasion. They also demanded that it be held under a mandate from Congress, with a commitment to implement the results.

With the White House and Congress at odds, Representative Young let his "taxes for welfare" proposal die and announced the filing of a new congressional response to the 1993 vote. On February 2, 1996, the *San Juan Star*, in a banner headline, reported a surprising announcement from Washington: "Young Bill Nixes Status Quo. Free Association Would Replace Commonwealth as Plebiscite Option" for 1998. House of Representatives Speaker Newt Gingrich (R-GA) announced his cosponsorship of the Young bill.

The White House reacted on March 12, rejecting Young's concept and insisting that commonwealth should be an option in the 1998 vote. After the *San Juan* daily *El Nuevo Día* published a poll showing that two-thirds of prospective voters favored the inclusion of commonwealth status, Governor Rosselló deemed commonwealth "viable" and proposed it as a fourth alternative for the vote (after independence, statehood, and free association) on the condition that "it be defined by the United States Congress" and not the Popular Democratic Party, which favored it in 1993.

The Popular Democratic Party denounced the move, calling it a "trap" and insisting on the inclusion of the "new commonwealth" as it had been defined in the 1993 ballot. On March 23, 1996, congressional hearings were held in San Juan on the new bill. Representative Young accepted Rosselló's proposal for four options, including a "commonwealth defined by Congress," and set the vote for 1998.

THE VIEW FROM AMERICA

The *New York Times*, reporting on the San Juan hearings the next day, carried the headline "Bill Heats Up Issue of Puerto Rican Statehood." The headline captured the American attitude central to understanding the status debate at century's end: for the United States, the only issue was whether to offer annexation to the union.

This attitude became clear when President Clinton announced on May 24 that he would sign a

Republican bill eliminating tax exemptions for multinationals operating in Puerto Rico after a 10-year grace period. The economic basis for commonwealth that had existed for 50 years was to be eliminated because of its costs to the United States Treasury. The reaction on the island took a new, unexpected turn.

The *San Juan Star* commented on June 3, 1996, that a "Neo-Nationalistic Tide Rises in P.R." On June 7, the *Washington Post* published an op-ed column by this author in which I said that the dilemma was not one faced by the people of Puerto Rico but one facing the United States, which had to decide whether or not to offer statehood to Puerto Rico in 1998 as a Spanish-speaking member of the union. On June 20, also in the *Washington Post*, Representative Gerald Solomon (R-NY), the chairman of the decisive House Rules Committee, responded that "English has to be the official language in Puerto Rico if the island becomes a state of the union." He said he would stop any legislation that did not require this. The "cultural" question had arisen.

Between June 13 and 27 the House Committee on Resources considered the plebiscite bill. The full committee rejected the commonwealth definition used in the 1993 plebiscite, arguing that a commonwealth is only "an unincorporated territory subject to the plenary powers of Congress." For those believing Puerto Rico was their nation (as 63 percent of Puerto Rican voters had said they did in a June 12 *Nuevo Día* poll), it offered independence/free association (the difference being a "Treaty of Union" on defense matters in free association), preserving American citizenship for those holding it at the moment of the recognition of Puerto Rican sovereignty but denying it to their descendants. In the case of statehood, it offered the survival of the Puerto Rican culture, without specifying how this would occur. With minimal debate, the measure with the four options (but with commonwealth as a territorial form subject to the full powers of Congress) was referred favorably and unanimously to the floor of the House.

Representative Solomon announced that he would demand an amendment to the statehood option requiring English as the language of government and instruction in Puerto Rico. In response, it was announced that thousands of Puerto Ricans—including the leadership of the pro-commonwealth Popular Democratic Party—would take part in a demonstration called *La Nación en Marcha*. On July 14, as Pedro Rosselló was being

elected chairman of the United States Governors' Association, about 80,000 people marched in front of the El Conquistador hotel in Fajardo "to affirm the Puerto Rican nation."

The summer presidential nominating conventions of the two United States parties saw a significant change in each party's attitude toward Puerto Rico. The Democratic Party, abandoning its paternalistic stance of almost a century, said it no longer supported the participation of Puerto Ricans with parity (benefits equal to those enjoyed by American citizens in the 50 states) in federal welfare programs. The Republican Party, abandoning its annexationist stance of almost a century, made independence an option for Puerto Rico for the first time in its history.

On August 23 the committee report on the Young bill was published. It described the United States representations before the United Nations in 1953 regarding the noncolonial, nonterritorial nature of commonwealth status as a "misunderstanding." Days later, on September 4, the United States General Accounting Office issued its report on the bill, indicating that extending United States income taxes to Puerto Rico under statehood would bring only \$45 million a year to the federal treasury since the poverty level on the island would qualify half its population for tax refunds. Cost joined culture as an objection.

The anti-statehood offensive in Congress began in earnest. On September 19, Representative Dana Rohrabacher (R-CA) assumed its leadership, opposing the inclusion of the statehood offer and favoring free association for a sovereign Puerto Rico. Another amendment was announced by Rules chairman Gerald Solomon that would require the use of English as the language of instruction in public schools if Puerto Rico became a state.

On September 27, 1996, Puerto Rico's nonvoting delegate to Congress, Carlos Romero Barceló of the annexationist New Progressive Party, requested the withdrawal of the Young bill, arguing that he could not accept the amendment imposing English as the language of instruction in public schools in the statehood alternative. Chairman Solomon agreed. A second effort at decolonization since 1989 had failed.

THE STATUS BILL REBORN

In the middle of the campaign for the 1996 general elections in Puerto Rico, pro-independence leader Juan Mari Bras announced that he had renounced his American citizenship and was

demanding recognition by the United States Department of State of his Puerto Rican nationality. Pro-statehood leader Miriam Ramírez de Ferrer sued to deny Mari Bras the right to vote. Three weeks before the elections the Puerto Rico Superior Court recognized the existence of a Puerto Rican citizenship separate and distinct from American citizenship, and allowed Mari Bras to vote. The judgment was appealed. The Supreme Court of Puerto Rico, in a 5 to 2 decision, affirmed on November 18, 1997, that both Puerto Rican nationality and citizenship existed and were distinct from United States citizenship. The case is now on appeal to the Supreme Court of the United States.

Asked about the case, Governor Pedro Rosselló remarked, "Puerto Rico is not a nation and has never been a nation."

On November 5, 1996, the New Progressive Party won total control of both houses of the Puerto Rican Legislative Assembly. Two days later, Representative Don Young announced that he would again submit a bill offering statehood to Puerto Rico and calling for a mandated plebiscite on it in 1998.

Within a few weeks, the civic organization Puerto Rican Democratic Action found sponsors to amend the new Young bill to include free association as an option—this time not hyphenated but separate and distinct from independence. Governor Rosselló announced he would also lobby for its inclusion by Congress.

While the United States Senate leadership announced that it "opened its doors" to status initiatives, leaders on both sides of the aisle noted that Washington "would lose too much money" if the island became a state because it would pay "more to the poor than it would receive from the rich," in the words of Senator Dan Murkowski (R-AK), chairman of the committee of jurisdiction over territories. Thus, the Senate leadership insisted that Congress would decide "which options could be offered" for the 1998 vote.

In late February 1997 the Young bill was again filed in the House and Senate. Acting in concert this time, the White House and Congress demanded that each political party on the island submit a new definition of its preferred option within 30 days for consideration by Congress.

The pro-commonwealth Popular Democratic Party split between those favoring "permanent union" and those favoring free association. The new definition the party submitted to Congress evaded

the key issue of local sovereignty, which distinguishes the former from the latter.

Those advocating statehood were faring no better. On March 5 the local Department of Education announced that in the next school year it would give English "the category of an official language." All three teachers unions on the island announced they would call a permanent strike if English were imposed. The New Progressive Party did not include "English only" in its definition of statehood.

On March 13 the Senate leadership visited Puerto Rico and emphasized the economic aspect of status options. Senator Daniel Akaka (D-HI) said the White House was interested in "solving the status question" by the year 2000. A few days later the House held public hearings in Washington on the Young bill. The White House avoided the issue of

sovereignty and insisted that "English is not an impediment to statehood," but Representative Solomon responded that same day that he would insist on his condition.

*The central issue in
the third failure to
decolonize Puerto
Rico is the
"national" question.*

THE THIRD FAILURE

The *San Juan Star/Venue* Sunday magazine put it thus: "English V. Spanish: Progress or Politics?" and

announced that after 30 years it would publish a Spanish edition. On May 16 the paper published a poll showing that 9 out of 10 Puerto Ricans favored the exclusive use of Spanish in schools and in all government matters. Figures from the Education Department itself showed that 60 percent of teachers who taught English were not certified to teach the language. A strike vote of the teachers unions against English was approved on June 30. Pro-statehood teachers union leader David Malavé announced that teachers would not teach in English.

In Washington, the Resources Committee met on May 21 to vote on the Young bill. The ranking Democrat, George Miller of California, proposed a new definition of commonwealth that had been submitted by the Popular Democratic Party. His amendment was defeated 32 to 10, and the bill was again sent to the House floor by a nearly unanimous vote. The next day *El Nuevo Día* published a poll that showed how the various options ranked in popularity: commonwealth, 43 percent; statehood, 39 percent; and independence, 4 percent. Those undecided or not voting were 7 percent and 5 percent, respectively. Rejected by Congress, commonwealth had won.

On July 11 and again on July 18, 1997, the bill was set to be voted on in the House Rules committee. It never was. Don Young offered extensive amendments, including one that would grant a new definition of commonwealth status under United States sovereignty, and another making English a second official language in the government and schools. Chairman Gerald Solomon would not agree to the English language amendment, saying it was too soft. After reading the scathing July 18 editorial in the *New York Post* against offering statehood to Puerto Rico, Young suffered a heart attack; consideration of his bill was left in limbo.

On July 31, the *San Juan Star* summarized the situation with the banner headline: "Assault on Puerto Rican Statehood Stepped Up." The Popular Democratic Party was emboldened. On September 12 the party took out an advertisement in the congressional magazine *Roll Call*, in which it called Puerto Rico a "Spanish-speaking Latin American nation" that could not be annexed. That same day the top Republican leaders in Congress postponed a vote on the Young bill, indefinitely.

THE "NATIONAL" QUESTION

Since September 12, 1997, it has become clear that the central issue in the third failure to decolonize Puerto Rico is the "national" question.

After September 21, the covers of the first three issues of the new Spanish-language *El San Juan Star* were dedicated to the "equal dilemmas" of Quebec and Puerto Rico, "two nations fighting to protect their language and culture." Annexation with required cultural assimilation was scrutinized.

On August 12 *El Nuevo Día* had published a poll showing that if the plebiscite had been held on that date, the results would have been: commonwealth, 45 percent; statehood, 36 percent; independence, 4 percent; undecided, 10 percent; and not voting, 5 percent. Comparing the results with those of May, two clear tendencies were evident. Statehood had lost 3 percent of its support after the unleashing of the cultural debate, and commonwealth had gained 2 percent. Nonvoters and those favoring independence did not change. The debate in Congress had hurt *jibaro* statehood, badly.

A comparison of these figures with the results of the 1993 plebiscite (by dividing the now undecided

equally between commonwealth and statehood) leads to the conclusion that in the last four years—in which those advocating statehood have been in almost unchallenged power in Puerto Rico and in which the issue of statehood has been discussed intensely in Congress—autonomism, be it commonwealth or free association, has reached an absolute majority when added to pro-independence followers (just as it did in 1993), solidly maintaining 54 percent of the vote.

The pollsters found various indicators to explain this:

- A massive 76 percent are opposed to the adoption of English as the language of instruction in schools;
- Sixty-six percent do not consider themselves bilingual and are uncomfortable speaking English;
- More than 66 percent believe that the symbols of nationalism, such as an Olympic team and a Miss Universe contestant, "are not negotiable" for statehood and that their elimination is "too high a price" for admission into the union;
- Forty-four percent oppose even the present mandatory course in English as a second language.

These indicators show the popular will in Puerto Rico regarding "the cultural question" in the status issue.

WHAT CAN AMERICA DO?

After 100 years of the American century in Puerto Rico, the Puerto Rican nation is stronger than ever. The United States must decide between ethnocentrism and pluralism.

What can Congress do as it considers—perhaps this March—a fourth effort to decolonize Puerto Rico? The American century on the island has gone through three stages: tutelage, self-government, and self-determination. None has solved the issue of a nation within a nation. Congress is left with one last option: to exercise its constitutional power to "dispose of the territory" and grant it sovereignty in 1998. ■

Central America's political economy is "being reshaped by Asian growth processes. . . [W]e have traditionally viewed political, economic, and social life in the various Central American states as reflecting their status as 'coffee' or 'banana republics,'" but something new may be in the offing.

Beyond Coffee and Bananas: Asian Investment in the New Central America

STEVE C. ROPP

The explosive growth Asian economies experienced during the 1970s and 1980s had a substantial impact on both developing and developed countries throughout the world. This was especially the case in Central America, which was more deeply affected than other parts of Latin America. Government development strategies were reformulated, regional economic production fundamentally altered, and patterns of interstate relations changed—all due largely to Asian influence within a context of rapid hemispheric globalization.

During 1997, several diplomatic incidents illustrated Asia's growing impact on Central America. The first came in January, when the People's Republic of China, a permanent member of the UN Security Council, vetoed plans to send UN military observers to Guatemala following the signing of peace accords between the government and leftist guerrillas. From China's perspective, the Guatemalan government was part of a dangerous bloc of countries that consistently supported Taiwan in its bid to rejoin the United Nations. Although eventually withdrawn, this veto would have undermined Guatemala's efforts to establish a stable democratic system after decades of civil war. Later in the year, Panama's plans for a major conference designed to serve as a magnet for investment capital needed for canal modernization was seriously damaged by more conflict between China and Taiwan, and by other Asian countries' concerns about offending either party. As journalist Glenn Garvin put it in the August 29, 1997, *Miami Herald*, the Universal Congress on the Panama Canal ended up being "little more than an engineering seminar."

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At a more fundamental level, the political economies of various Central American countries are being reshaped by Asian growth processes. In El Salvador, for example, the value of exports from largely Asian-owned assembly plants competed with that of coffee exports for the first time in 1996. Since we have traditionally viewed political, economic, and social life in the various Central American states as reflecting their status as "coffee" or "banana republics," we now need to ask how Asian-driven change will alter traditional structures.

Answering this question requires a close look at the mix of Asian forces currently influencing developments in Central America, and at the changing hemispheric context within which this influence is being exerted. We can then discuss the regional priorities and interests of various Asian countries—especially Japan, South Korea, China, and Taiwan—and turn to the regional transformation that Asian growth processes are encouraging, and the broad implications it holds for the next century.

CENTRAL AMERICAN EXCEPTIONALISM

One of the reasons for the strong impact Asian growth has had on Central America is the region's geographic and economic position in the world. Because of its location, Central America has always been subject to global influences. In effect a "bridge" between North and South America, and between the Atlantic and Pacific Oceans, it has attracted the attention of great powers since the sixteenth century.

The natural economic affinity between Asia and Central America, based on their complementary levels of development, has also focused Asian interest. Today, Asia's "Little Tigers" (Hong Kong, Singapore, South Korea, and Taiwan) have per capita

GDPs roughly three times that of the average Latin American country. With average domestic wages above \$6 per hour, these tigers can no longer competitively engage in light manufacturing activities at home. Facing intense competition from the other emerging economies of South and Southeast Asia, the aging Little Tigers have increasingly turned to Latin America to gain an economic advantage in world labor markets.

Many Asian entrepreneurs from the Little Tiger countries also believe Central America has the potential to become a strategically located "export platform" for light industrial goods destined for regional markets. The North American Free Trade Agreement (NAFTA) has expanded opportunities in the Northern Hemisphere, while the Common Market of the South (Mercosur, composed of Argentina, Brazil, Paraguay, and Uruguay) has done much the same in the Southern Hemisphere. Because of the possibility of a trade war between the United States and China, Asian investors, whose production from factories located on the Chinese mainland is primarily destined for United States markets, are seeking greater market diversification. There is a general awareness that they must reach beyond their own region in order to shield their investments from potential political turmoil, and to deal with their rapidly shrinking competitive advantage over the region's newly emerging economies, such as Vietnam.

Finally, Asia's role in Central America has grown because Central American leaders have increasingly looked toward Asia for answers to their problems. During the 1980s, guerrilla conflicts devastated the region. These conflicts also brought a considerable inflow of foreign aid. But beginning in the late 1980s, the United States and the major West European powers turned their attention to other post-cold war problem areas such as Russia and Eastern Europe, which led to a precipitous drop in aid to Central America, coupled with more intense global competition for new sources of investment. While the United States remains highly influential, its influence derives as much from the memory of past involvement as from current economic realities. As one American diplomat put it in a recent private conversation, "We have influence today in Central America because Central Americans continue to believe that we have it."

OF NOBLE STATES, WARRING STATES, AND ETHNIC NETWORKS

Central America's leaders now travel as regularly to Asian capitals as they do to Washington, D.C.,

in search of political and economic support. Typical of this trend was Costa Rican President José María Figueres's August 1997 visit to Southeast Asia. Praising Taiwan's economic development model, he suggested that adopting this model could create 100,000 new high-wage jobs in his native land.

Since it is the various nation-states of Asia that are the primary "transmission belts" for these generalized Asian growth processes, it is important to examine their individual roles and interests. Japan has emerged as a force in Central America for several reasons. First, because it is a global economic power, it has had the capability to provide substantial assistance to countries struggling to recover from the conflicts of the 1980s. Total Japanese aid to Central America increased from \$50 million in 1987 to \$230 million in 1995, most of it coming in the form of grants rather than loans. Second, as a major industrial power, Japan has considerable interest in the successful operation of the Panama Canal. This has led to Japanese participation in a commission established to plan for the canal's modernization, and to a continuing interest in assessing the viability of alternative canal routes through the region.

While the Japanese remain involved in Central America as part of an ongoing commitment to the regional peace process, there appears to be an element of noblesse oblige in their attitude. Their natural economic affinities are with the more industrially developed countries of Latin America such as Mexico and Chile. Wary of being cast as Central America's new benefactor in the absence of a major United States financial commitment, they have graciously paid their share of the costs of creating and maintaining democratic and market-oriented institutions in the region. But the true depth of their interest was revealed in August 1996, when Prime Minister Ryutaro Hashimoto spent only three hours in Central America before leaving for engagements elsewhere in the hemisphere.

In contrast to Japan, South Korea has focused on the immediate economic needs of its business class. South Korea's multinational corporations already have \$340 million invested in Latin America (largely Mexico, Brazil, and Chile) where they produce a wide variety of high- to low-technology products. Before the current economic crisis swept Asia, Korean business leaders had planned to dramatically increase their investment in Latin America, anticipating that their two-way trade with the region would eclipse trade with Europe by the year

2000. If they were to alter their investment strategy it could have a negative economic impact on some key Latin American countries.

South Korea's interest in Central America can be traced to the needs of its small business firms, which hope to competitively assemble light manufactured goods in *maquila* industrial plants (*maquila* refers to the final assembly of articles whose individual components are generally manufactured elsewhere). Although *maquila* plants have historically been associated with the United States-Mexico border region, they can now be found throughout Central and South America. And while American companies such as the Gap, Liz Claiborne, and J. C. Penney own many of them, a number are run by South Koreans.

The involvement of Korean small businessmen in countries such as El Salvador and Guatemala has led to a clash of labor cultures. Many Koreans brought their businesses to Central America because they thought workers in southern cone countries such as Chile and Argentina were overly concerned with working conditions and labor rights. Now they find Central American workers to be equally willing to protect their own interests. The result has been a number of plant closings and occupations by Central American workers.

China and Taiwan play the most important roles in Central America. Their greater involvement, however, is not primarily the result of economic factors such as the globalization of production, but is instead derived from political concerns. Since 1949, when the Chinese Nationalists retreated from the mainland to the island of Taiwan, the two countries have been locked in a competition for global diplomatic recognition. And since such recognition is conveyed by individual states, regardless of their size, both Chinas have diligently courted the many small nations of Central America and the Caribbean.

By suggesting that small countries that continued to recognize Taiwan might be denied trading access to Hong Kong once it reverted to Chinese control in July 1997, the People's Republic has been able to erode the global diplomatic support base for the "other China." Taiwan, for its part, has come to view Central America's diplomatic support as increasingly critical to its survival as a nation-state. Foreign aid that previously went to Southeast Asia

is now being diverted to Central America in an effort to preserve Taiwanese influence.

The magnitude of this shift in Taiwan's regional commitment was demonstrated in September 1997, when President Lee Teng-hui met in El Salvador with all of Central America's heads of state. With the objective of forming a regional strategic alliance, Lee promised to contribute \$240 million to a new Central American development fund. In exchange for continued diplomatic support, Taiwan is prepared to provide the economic and technical muscle to reinvigorate regional structures and institutions that were created by the United States in the 1960s to promote economic development. As a nonregional member of the Central American Bank for Economic Integration, Taiwan will play an increasingly important role in providing loans to the region's small businesses. Taiwanese business-

people have also invested a total of more than \$300 million in various Central American ventures. This is more than the total Central American investments of Germany.

While it is the policies and business practices of individual Asian nation-states that are having the greatest impact on Central America, the local Chinese community also plays an important role. Over a century of civil war and associated poverty in China resulted in a scat-

tering of people of Chinese descent throughout Latin America between 1850 and 1950. In recent decades, many members of this diaspora have become wealthy, especially those living in Argentina, Brazil, and Chile. Transnational financial support networks have been formed that ignore Chinese-Taiwanese feuding, and these networks increasingly influence economic developments throughout Central and South America.

The degree to which the Chinese community has become an organized force in Central America varies considerably from country to country. In general, the strength and influence of ethnic networks are much greater than they appear because of their tendency to avoid overt involvement in politics. The Chinese community is most influential in Panama because of its long presence on the isthmus, its large size (an estimated 10 percent of the population), and the extent of intermarriage with other racial and ethnic groups. A darker side to the growing influence of this community throughout Central America is the increasing role of the Chi-

Maquila-produced goods and nontraditional agricultural products now make up approximately 60 percent of all exports from. . .Guatemala, El Salvador, and Costa Rica.

nese triads (mafias) in a variety of illicit activities, such as kidnapping and prostitution.

CENTRAL AMERICA'S GLOBALIZATION

Asia's uneven growth processes and the activities of individual Asian states are significantly changing the face of Central America; they are the most important component of the larger phenomenon of globalization that is rapidly reshaping the region. Although globalization remains an elusive concept, it can be loosely defined as a multifaceted process by which the flow of goods, services, people, and ideas is rendering the traditional territorial boundaries of nation-states increasingly irrelevant.¹

The impact of Asian growth processes and globalization has been so significant in recent years that we can talk about a regional transformation of historic proportions. During the nineteenth and early twentieth centuries, changes in Central America were largely the result of growing demand for agricultural goods such as coffee and bananas in industrializing Europe and the United States. This demand had a profound impact on Central American economies, politics, society, and even culture.

Central America's contemporary transformation bears some resemblance to those of the past because of continuing demand in developed countries such as the United States for products from less-developed regions of the world. But today's transformation can be attributed as much to the activity of Asian "intermediaries" as to direct developed country involvement.

Central America is providing inexpensive labor to South Korean and Taiwanese firms producing consumer goods such as clothing, footwear, and toys for the American and other regional markets. Sociologists Gary Gereffi and Lynn Hempel point out in the January-February 1996 issue of the *NACLA Report on the Americas* that this production most often occurs as part of a triangular process in which Asian producers use duty-free export-processing zones (EPZs) located in Central America to manufacture products that meet the design specifications of large United States retailers and merchandisers.

The magnitude of the economic changes in Cen-

tral America can be seen in the decline in exports of traditional "dessert food" products (coffee, sugar, and bananas); maquila-produced goods and nontraditional agricultural products now make up approximately 60 percent of all exports from the three countries in the "industrial heartland" of Central America (Guatemala, El Salvador, and Costa Rica).²

The growth in the garment assembly industry has been especially important. Maquila exports grew almost 10 times from 1985 to 1993, and the number of workers increased dramatically. In Guatemala alone, predominantly South Korean companies operate 180 maquilas that employ 100,000 workers. While the regional numbers pale in comparison to employment figures in major garment-exporting countries like Mexico, they are significant on a per capita employment basis in small Central American countries.

Central American economies are also changing in several related ways. The globalization of production processes and the accompanying expansion of transportation networks has opened regional markets for nontraditional agricultural goods such as cut flowers in many areas of the world. And, in the case of Costa Rica, the globalization of tourism is changing that country into an "eco-tourist republic"; by 1994, tourism was the country's leading source of national income, and Costa Rica was Latin America's second most important tourist destination.

The variegated impact of Asian growth processes and globalization is most noticeable in Panama. With the rapid growth of world trade, Asian maritime transportation companies that were once single-port players are becoming the operators of much larger global networks. Increasingly, massive ships ply routes between a few hub ports, where goods are transferred to smaller feeder vessels that service regions such as Central America on a hub-and-spoke basis.

Panama has come to be viewed by a number of Asian consortia as a strategic location for expanded port facilities, on-dock intermodal rail yards, and warehouses. Beyond this, several Asian multinationals believe Panama could become an airfreight distribution hub for all of Latin America. Asian exporters have grown frustrated with a hemispheric air transportation network that forces them to fly through gateway cities such as Los Angeles and Miami; they want to use a new generation of aircraft to facilitate direct transpacific trade through Latin American air cargo hubs in countries such as Panama.

¹See James N. Rosenau, "The Complexities and Contradictions of Globalization," *Current History*, November 1997.

²William L. Robinson, "Transnational Processes in Central America" (paper presented at the annual meeting of the Latin American Studies Association, Guadalajara, Mexico, April 1997), p. 17.

LOOKING TO THE EAST

Regional transformations are by definition events that do not normally happen overnight. During the nineteenth century, it took at least 50 years for the spread of coffee and banana cultivation to fundamentally alter the structure of Central America's economies. Only much later was it recognized that this process had irrevocably changed social and political structures. As Shakespeare noted, we are only capable of seeing "the baby figure of the giant mass of things to come at large." But even such limited vision suggests that major changes are in the offing for Central America.

If history is any guide, current changes in Central America's economic activities will lead to the formation of new social classes and to new patterns of interclass cooperation and conflict. For example, twentieth-century Honduran politics was radically altered in the 1950s when the traditionally weak military began to align itself with newly emerging working-class elements on the north coast that were associated with the banana industry. Will we begin to see new types of political alliances forming around parts of the maquila business and the working classes in Honduras, El Salvador, and Guatemala?

On another front, Asian growth processes could breathe new life into Central America's long-dormant regional integration project. Asian countries

have thus far supported continuing efforts to unite the region politically and economically. While the Central American countries have long resisted the siren calls of extra-regional powers to create meaningful regional structures, Asian growth processes and globalization might provide the right mix of incentives to do so.

However, if the "Asian flu" continues to spread, it could have dire consequences for Central America. Most Latin American economists have focused on the implications of the current Asian crisis for the larger South American countries. Brazil, with its huge deficits and heavy dependence on Asian capital, is viewed as especially vulnerable to a possible Asian withdrawal of funds. But what about Central America? Here, too, the consequences of diminished access to Asian (particularly Korean) investment capital would be enormous.

The broader implications of Asian growth for all of Latin America are likely to be substantial. Because of Central America's extreme openness and the small size of its individual countries, Asia's political and economic impact has been somewhat greater there. Yet other Latin American countries also look to the countries of Asia as models of development, sources of capital investment, and future markets. Asian influence is likely to remain a major fact of life throughout the region for the foreseeable future. ■

BOOK REVIEWS

ON LATIN AMERICA

Compañero: The Life and Death of Che Guevara
By Jorge G. Castañeda. New York: Knopf, 1997. 456 pp., \$30.

How does a man become a myth? And how do you disentangle the myth from the man? To answer only one of these questions in the case of Ernesto "Che" Guevara would be a daunting task for any writer, but Mexican political scientist and *Current History* contributing editor Jorge Castañeda tackles both in a compelling narrative that is part biography, part political analysis, and part philosophical meditation on the confluence of politics, culture, and power.

All Che's dimensions are here: Che the young guerrilla leader and follower of "Saint Marx"; Che the fastidious central bank head in Castro's newly installed government; Che the *Time* magazine-ordained "brain of the revolution" receiving a stream of visiting liberal/leftist intellectuals. But there is also the Che who established Cuba's first labor camp, which housed both dissidents and homosexuals, and the Che who was not willing to grapple with a central truth: that revolution is not an end in itself.

It was, of course, the first Che who became the myth and icon, his bearded, bereted visage silk-screened onto innumerable T-shirts above the proclamation "Every nation liberated is a step toward victory." Why this Che eclipsed the others—and why those T-shirts remain sentimental keepsakes for many a baby boomer in Paris, Berkeley, and Mexico City—forms the central question in this masterful work, which exposes both the man and the myth.

W. W. F.

Constructing Democratic Governance: Latin America and the Caribbean in the 1990s. Three volumes:

- Themes and Issues
- South America in the 1990s
- Mexico, Central America, and the Caribbean in the 1990s

Edited by Jorge I. Domínguez and Abraham F. Lowenthal. Baltimore, Md.: Johns Hopkins University Press, 1996. Volume 1, \$13.95, paper; Volumes 2 and 3, \$15.95 each, paper.

The editors of *Constructing Democratic Governance* have assembled a stellar cast of scholars to investigate the state of democracy in Latin America in the 1990s. The series of thematic essays in the introductory volume offers an excellent introduction to the main issues confronting the region, issues that are examined in depth in the individual country chapters found in the accompanying volumes.

W. W. F.

Beyond Sovereignty: Collectively Defending Democracy in the Americas

Edited by Tom Farer. Baltimore, Md.: Johns Hopkins University Press, 1996. 416 pp., \$38.50, cloth; \$19.95, paper.

The international response to Latin America's democratization is ably and thoroughly reviewed in this edited volume. The essays on the challenges to the international community posed by Cuba and Mexico, written by Jorge Domínguez and Denise Dresser, respectively, are especially valuable.

W. W. F. ■

THE MONTH IN REVIEW

January 1998

INTERNATIONAL

Arms Control

Dec. 3—In Ottawa, leaders from more than 120 nations sign a comprehensive ban on the global production and use of anti-personnel land mines; the US, China, and Russia are not among the signers.

Middle East Peace Process

Dec. 5—At talks in Paris, Israeli Prime Minister Benjamin Netanyahu tells US Secretary of State Madeleine Albright that he will not cede any territory to Palestinians for at least 5 months; Albright calls the talks "substantive."

Nazi Gold Conference

Dec. 2—At the opening of a 41-nation conference in London, the US commits \$4 million (increasing to \$25 million over 3 years if Congress approves) and Britain \$1.65 million to a new fund for Holocaust survivors; Argentina and Luxembourg also agree to contribute, but other countries, including France and the Netherlands, decline to make a commitment; the fund will be established from the \$58 million in Nazi gold still held by the US and British central banks.

Dec. 3—A US government report presented today at the conference discloses that wartime neutrals besides Switzerland—notably Spain, Turkey, Sweden, and Portugal—traded extensively in gold looted by Nazi Germany.

Dec. 4—The conference ends with delegates agreeing to meet again next year in Washington to inquire into real estate, bonds, securities, insurance policies, and artwork stolen by Nazi forces.

United Nations

Dec. 1—The UN Conference on Climate Change opens in Kyoto, Japan, with representatives of 150 countries attending; the delegates aim to establish a treaty committing developed nations to reduce their greenhouse gas emissions, thereby moving beyond the 1992 Rio treaty on climate change, which called only for voluntary efforts.

Dec. 11—Negotiators in Kyoto agree on a set of legally binding measures (the "Kyoto Protocol") obligating industrialized countries to reduce greenhouse gas emissions to an overall level 5.2% below 1990 levels, between 2008 and 2012; negotiations on the details of an emissions trading systems are postponed until November 1998, signatory nations will have until March 1999 to ratify the treaty.

World Trade Organization

Dec. 13—In Geneva, more than 100 countries sign an agreement to open their financial markets and financial services industries to foreign companies.

ALGERIA

Dec. 24—Algerian state radio reports that gunmen killed approximately 80 civilians in 2 overnight attacks in Algiers and a village southwest of Algiers; the attacks are the latest in a series of massacres and bombings across the country that have killed about 150 civilians in the past week; no group has claimed responsibility for the attacks; the government blames militant Islamists.

Dec. 25—Results of yesterday's elections show that President Liamine Zeroual's National Democratic Rally has won 80 of 96 contested seats in parliament's upper house, the National Liberation Front took 10 seats, the Socialist Forces 4, and the

Islamic Movement of a Peaceful Society 2; the remaining 48 seats in the upper house will be filled with presidential appointees.

Dec. 31—The New York Times reports that as many as 97 people were killed December 28 and 29 in raids on villages outside Algiers; security forces report that 78 civilians were killed and 68 wounded in attacks yesterday in 3 villages outside Algiers.

BOSNIA AND HERZEGOVINA

Dec. 7—Results of the November 22-23 parliamentary elections for the Bosnian Serb enclave are released; indicted war criminal Radovan Karadzic's hard-line Serb Democratic Action party lost its majority but still led the vote, taking 24 of 83 seats, the ultranationalist Radical Party, allied with Karadzic's party and led by Serbian presidential candidate Vojislav Seselj, won 15 seats; Bosnian Serb President Biljana Plavsic's Serb People's Alliance, formed with Western help after she broke with Karadzic earlier this year, also took 15 seats, the Socialist Party of the Serb Republic won 9 seats; and a coalition led by the Muslim nationalist Party of Democratic Action won 16 seats.

COLOMBIA

Dec. 16—The Senate passes a law that would allow drug traffickers to spend up to 60 days a year out of prison during the last 20% of their prison terms; the law would also allow early release for non-drug criminals in work-study programs; the Senate version remains to be reconciled with a more far-reaching House version.

CONGO

Dec. 3—Heavily armed police break up a meeting organized by Arthur Z'Ahidi Ngoma, who heads the opposition group Forces of the Future; all the participants, including foreign journalists, are arrested.

Dec. 8—In the western city of Mbandaka, a UN team begins investigating allegations that Tutsi soldiers under President Laurent Kabila's command massacred thousands of Hutu refugees from Rwanda during the rebellion that overthrew President Mobutu Sese Seko in May.

CZECH REPUBLIC

Dec. 6—A bomb explodes in Prague outside the home of Finance Minister Ivan Pilip; Pilip, a chief rival of departing Prime Minister Vaclav Klaus, helped engineer Klaus's resignation 6 days ago after a financial scandal.

Dec. 16—President Vaclav Havel names Josef Tosovsky, the head of the national bank, prime minister.

EGYPT

Dec. 28—Egypt's supreme administrative court upholds a ban on female circumcision; the Health Ministry had imposed the ban in 1996 but it was overturned by a lower court; the supreme court's ruling cannot be appealed.

FRANCE

Dec. 24—A court in Paris convicts "Carlos" (Ilich Ramirez Sanchez) of the murder of 2 French police agents and a Lebanese informant in Paris in 1975, and sentences him to life

in prison; Carlos, a Venezuelan-born member of a Palestinian independence movement, is wanted in at least 4 other countries for other crimes, including the 1973 kidnapping in Vienna of 11 international oil ministers.

Dec. 26—A court convicts far-right National Front leader Jean-Marie Le Pen of denying the magnitude of Nazi crimes against humanity (a crime under a 1990 French law) when he called Holocaust gas chambers a "detail in history" earlier this month in Munich; Le Pen will be fined \$50,000 to publish the text of the court decision in a dozen newspapers.

GUYANA

Dec. 20—Desmond Hoyte, the apparent losing candidate in the December 15 presidential election, says that Janet Jagan's victory was rigged and that Doodnauth Singh, the elections commission chairman, violated the constitution by declaring her the winner yesterday before the last votes were counted; Jagan, a US expatriate and the widow of former President Cheddi Jagan, was sworn in yesterday.

HONDURAS

Dec. 30—Carlos Flores of the conservative Liberal Party is declared the winner, by a wide margin, of the November 30 presidential elections; he defeated the conservative National Party's Alba Nora Gunera, the widow of a former dictator.

INDIA

Dec. 2—Police say that upper caste Hindus killed at least 61 lower caste Hindu villagers in an attack last night near Patna, the Bihar state capital; some villagers in the area reportedly support Communist guerrillas who promise to redistribute land.

Dec. 4—President K. R. Narayanan calls new elections for February and March, 3 years early, after concluding that the 14-party coalition that has governed India since mid-1996 had no hope of sustaining majority support in parliament; Prime Minister I. K. Gujral resigned on November 29 after the Congress Party withdrew its support for the coalition.

Dec. 6—Bombs on 3 trains—1 in Kerala and 2 in Tamil Nadu—kill 11 people and injure 54; in a note left on one of the trains, a previously unknown group, the Islamic Defense Force, claimed responsibility and blamed the government for failing to punish the leaders of a Hindu mob that destroyed the Ayodhya mosque 5 years ago today.

IRAN

Dec. 9—In Teheran, Iranian supreme religious leader Ayatollah Ali Khamenei opens a meeting of the Organization of the Islamic Conference with a speech denouncing the US and Israel as "cunning enemies" of the Arab world.

At the conference, Iranian President Mohammed Khatami calls for renewed dialogue between Iran and the US, saying that Muslims should take advantage of the West's scientific, social, and technological achievements in order to construct an "Islamic civil society."

Dec. 25—A court frees Ibrahim Yazdi, a former foreign minister and prominent opposition leader who was arrested on December 14; Yazdi's lawyer, Seyed Ahmad Sadr, says that he and his client were told that Yazdi had insulted Ayatollah Khamenei, but were not told what the insult was.

IRAQ

Dec. 5—The government closes an oil pipeline to Turkey, saying it will not be reopened until the UN approves a more liberal plan to distribute food purchased under the oil-for-food

program that allows Iraq to sell \$2 billion in oil every 6 months to raise money for basic civilian goods.

Dec. 22—The UN Security Council demands that President Saddam Hussein grant UN weapons inspectors access to "any and all" sites; Iraq has listed "sites of national security significance" and "presidential sovereign sites" as off-limits to the inspectors, who are charged with determining whether Iraq has ceased development of weapons of mass destruction.

Dec. 25—A plane carrying medical supplies for Iraq, sent by Russian ultranationalist Vladimir Zhirinovskiy, lands at Baghdad's international airport; the landing is the 1st at the airport since the Persian Gulf War.

ITALY

Dec. 3—A court in Milan convicts media magnate and former Prime Minister Silvio Berlusconi of falsifying the price of a film company he bought in 1989 in order to set up a slush fund; Berlusconi, now the leader of the center-right opposition, is sentenced to 16 months in prison.

JAPAN

Dec. 27—The New Frontier Party, Japan's largest opposition party, dissolves; the party, which has suffered from infighting, reportedly plans to reconstitute itself soon under party leader Ichiro Ozawa.

KENYA

Dec. 1—In a meeting with President Daniel arap Moi, US "special envoy for democracy" Jesse Jackson warns that general elections scheduled for December 29 must be fair and free from violence if Kenya wants to continue good relations with the United States; Moi has been in power since 1979.

Dec. 29—The Kenya Electoral Commission, citing overcrowded and poorly managed polls, orders a 2d day of voting in presidential elections that began today; opposition candidates criticize the decision.

KOREA, SOUTH

Dec. 3—South Korea agrees to terms for a \$57 billion IMF-led bailout; under the deal the government is to cut public spending and adopt other austerity measures, open the economy to greater foreign investment, and end its practice of pressuring banks to make loans to financially endangered or politically connected companies.

Dec. 18—Longtime dissident Kim Dae Jung, of the opposition National Congress for New Politics, is elected president with 40.4% of the vote in today's elections; Lee Hoi Chang of the governing New Korea Party takes 38.6% of the vote, and Rhee In Je of the New Party by the People 19.2%; Kim was nearly killed on 3 occasions by past military governments for his efforts to open South Korea's political system to democracy.

Dec. 20—After consulting with Kim Dae Jung, President Kim Young Sam pardons Chun Doo Hwan and Roh Tae Woo, former military rulers who were sentenced last year to life and 17 years in prison, respectively, for their roles in the 1979 military coup, the 1980 Kwangju massacre, and corruption.

Dec. 23—The Korean stock market falls a record 7.5%, and the World Bank releases \$3 billion in funds to help South Korea pay off short-term loan obligations; yesterday the world's 2 major credit-rating agencies lowered South Korean debt to junk bond status.

Dec. 24—The US joins other major industrial nations in sending \$10 billion in emergency aid to South Korea and in asking commercial banks to extend Korean banks' loan repayment deadlines; the value of the country's currency, the won, has fallen 37% this month alone.

MEXICO

Dec. 5—Cuauhtémoc Cárdenas of the opposition Democratic Revolutionary Party is inaugurated as Mexico City's 1st elected mayor

Dec. 12—The Korean owners of the Han Young truck chassis factory in Tijuana agree to sever all ties with a government-controlled union and recognize an independent union formed by workers at the factory; the agreement marks the 1st time workers at 1 of Mexico's 2,700 tax-free maquiladora factories have succeeded in forming an independent union

Dec. 22—Uniformed attackers armed with automatic weapons kill 45 Tzotzil Indians and wound at least 25 others in Acteal, a remote village in the southern state of Chiapas; the massacre is the worst incident in a slow wave of political violence in Chiapas since the January 1994 uprising of the mostly Indian Zapatista National Liberation Army (EZLN); in the months before today's attack, anti-EZLN paramilitary groups had killed about 25 people and displaced some 6,000 or 7,000; the attackers today were reportedly Tzotzil Indian supporters of the ruling Institutional Revolutionary Party (PRI)

Dec. 27—Attorney General Jorge Madrazo Cuéllar charges Jacinto Arias Cruz, a PRI member and the mayor of the municipality where the massacre occurred, with 1st-degree murder in the attack; Arias is accused of supplying the weapons used in the massacre and then trying to direct a cover-up; a total of 40 people have now been charged with murder in the case

NEW ZEALAND

Dec. 8—Former Social Welfare Minister Jenny Shipley becomes the country's 1st female prime minister.

NIGERIA

Dec. 6—Low turnout is reported in today's elections for 1,000 state legislators, the military head of state, General Sani Abacha, barred voting in some areas because of political instability and imposed regulations that made it difficult for many political parties to register

Dec. 21—A radio broadcast reports that Lieutenant General Oladipo Diya and 11 others have been arrested in connection with an alleged coup plot against Abacha

PAKISTAN

Dec. 2—President Farooq Leghari resigns, saying Prime Minister Nawaz Sharif's 9-month tenure has been an assault on the rule of law; Sharif has pushed through 2 controversial constitutional amendments, 1 stripping the presidency of the power to dismiss governments and call elections, and the other forbidding members of parliament to vote against their party on any issue.

Dec. 31—Mohammad Rafiq Tarar of the governing Muslim League is elected president today with 374 of 476 votes in the electoral college (which is made up of national and provincial legislatures); Pakistan People's Party candidate Aftab Shahban Mirani finishes a distant 2d

PALESTINIAN AUTHORITY

Dec. 29—President Yasir Arafat accepts his cabinet's resignation, under threat of a parliamentary no-confidence vote; the Palestinian Legislative Council has suspended sessions until Arafat reforms his cabinet to eliminate corruption.

RUSSIA

Dec. 12—The government reaches agreement with the IMF on a plan to allow the quick infusion of \$1.7 billion in Western loans; Russia agrees to improve its tax collections and cut

government spending, and the IMF agrees to proceed with the next \$700 million installment of a 3-year \$10.1 billion loan suspended since October because of Russia's failure to collect taxes

Dec. 20—President Boris Yeltsin appoints Fyodor Gazizullin privatization minister and a deputy prime minister

RWANDA

Dec. 11—Hutu guerrillas attack a Tutsi refugee camp in Mudende, killing at least 327 people and wounding more than 200 others, according to UN officials and aid workers

SOMALIA

Dec. 22—In Cairo, clan leaders reach an accord, brokered by Egyptian diplomats, to end the factional conflict that has plagued the country since the departure of President Mohammed Siad Barre in 1991; the accord establishes a 3-year interim government composed of clan representatives and led by 3 top officials from one of the clans

SOUTH AFRICA

Dec. 17—Thabo Mbeki is elected head of the African National Congress, Mbeki, who was unopposed, will take over from President Nelson Mandela

Dec. 19—Former apartheid-era president and National Party leader P. W. Botha ignores a 3rd subpoena to testify before the Truth and Reconciliation Commission (TRC), the chairman of the TRC, Archbishop Desmond Tutu, files criminal charges against Botha.

SPAIN

Dec. 1—The Supreme Court sentences the 23 top leaders of a leftist Basque political party, Herri Batasuna (Popular Unity), to 7 years each in prison for collaborating with the separatist Basque guerrilla group ETA, which has killed some 800 people since 1968 in its fight for an independent homeland

Dec. 9—The government offers to share sovereignty over the island of Gibraltar with Britain; the announcement represents a departure for Spain, which has long demanded the return of the island; Spain ceded Gibraltar to Britain in the 18th century.

SRI LANKA

Dec. 6—The government says that as many as 146 of its soldiers were killed in heavy fighting with Tamil rebels over the past few days in the northern jungle region of Wanni

TURKEY

Dec. 3—The New York Times reports that on November 28 a court in Ankara sentenced 33 people to death for taking part in a 1993 mob attack in Sivas that killed 37 secular intellectuals.

Dec. 14—Prime Minister Mesut Yilmaz says Turkey will freeze its political contacts with the EU and focus on building a "strategic partnership" with the US; the EU recently decided not to open membership talks with Turkey because of its human rights record.

Dec. 18—The pro-Kurdish newspaper *Ulkele Gundem* publishes a letter from Kurdistan Workers Party (PKK) leader Abdullah Ocalan saying the guerrilla group is ready to declare a cease-fire and begin a dialogue with the government.

UNITED KINGDOM

Northern Ireland

Dec. 5—A Catholic man is shot and killed outside Belfast; the apparently sectarian killing, the 1st since the mainly Catholic

Irish Republican Army (IRA) called a cease-fire in July, is thought to have been carried out by a Protestant paramilitary organization.

Dec. 11—Gerry Adams, the leader of Sinn Féin, the IRA's political wing, meets with British Prime Minister Tony Blair at Blair's residence in London; it had been 76 years since an Irish republican leader met with a prime minister there.

UNITED STATES

Dec. 2—Attorney General Janet Reno announces she will not appoint an independent counsel to investigate Democratic Party fund-raising for the 1996 elections.

Dec. 15—The Defense Department announces it will vaccinate all armed services members against the biological agent anthrax.

Dec. 24—In Oklahoma City, Terry Nichols is convicted of conspiracy and involuntary manslaughter in the April 19, 1995, bombing of a federal government building in Oklahoma City that killed 168 people; Nichols conspired with Timothy McVeigh, who was sentenced to death in June for his part in the bombing.

Dec. 29—*The New York Times* reports that earlier this month a federal magistrate-judge in Laredo, Texas, refused a government request to surrender clergyman Elzaphan Ntakirutimana, a Rwandan, to a UN war crimes tribunal in Tanzania; the magistrate-judge has called a 1996 agreement between the US and the tribunal unconstitutional because it allows for extraditions to be made without the "advice and consent of the Senate."

VIETNAM

Dec. 30—The government announces that General Le Kha Phieu, believed to be a hard-liner wary of economic

liberalization, has been appointed general secretary of the Communist Party; he replaces Do Muoi.

YUGOSLAVIA

Serbia

Dec. 23—Milan Milutinovic of the governing Socialists is declared the winner of a presidential runoff held 2 days ago, with 59%; ultranationalist Vojislav Seselj received 38%; the election commission says turnout was just above the required 50%, Seselj says he will challenge the results in court; international and domestic observers say the election was marred by widespread fraud; a number of parties, as well as ethnic Albanians in Kosovo province, boycotted the vote.

Dec. 29—Milutinovic is sworn in as president; ultranationalists walk out of parliament in protest.

ZAMBIA

Dec. 25—Former President Kenneth Kaunda, who led the country to independence in 1964, is arrested and held without charges, more than 90 soldiers and opposition politicians have been imprisoned since President Frederick T. J. Chiluba declared a state of emergency in October after a failed coup attempt.

Dec. 31—Kaunda is released and put under house arrest, he is prohibited from political activity, interviews, and press releases.

Correction:

In Alan Tonelson's article in our November issue, former California Congressman Tony Coelho was incorrectly identified as a former congressman from Connecticut.

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International Narcopolitics

Our April issue examines the politics and the economics of the international drug trade and the failed US-led war on drugs. Topics scheduled to appear include:

First, Do No Harm: A New US Drug Strategy
Mathea Falco, Drug Strategies

The Economics of Drugs
Peter Reuter, University of Maryland

Transnational Criminal Organizations and Trafficking
Phil Williams, University of Pittsburgh

At War Over Drugs: The US and Mexico
Peter Andreas, Center for US-Mexican Studies, University of California, San Diego

Latin America and the Drug Trade
Pablo Dreyfus, University of Pittsburgh

Asia and the Drug Trade
James Shinn, Council on Foreign Relations

Europe's Approach to the Drug Problem
Elizabeth Joyce, Oxford University

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CURRENT HISTORY

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"Milosevic and his leftist coalition have closed the door on any significant opportunity for compromise. They live with the illusion that they can continue to juggle all of Serbia's problems without having one of them come crashing down around their heads. . . . As the political and economic crises intensify, Milosevic will have to increase repression or allow greater liberalization. Either way he will be forced to make a move that will accelerate his downfall."

Serbian Roulette

OBRAD KESIC

29/10/98



Nothing better exemplifies the current despair felt by most Serbs than a popular "game" that has become a recent pastime on the streets of Belgrade. "Serbian roulette" is usually played by teenagers or people in their early twenties. The rules are simple. When driving in Belgrade and approaching an intersection at which a streetlight has turned red, accelerate and see whether you can make it across without getting yourself or an innocent passerby killed. The toll so far? By the fall of 1997, 6 teenagers had lost their lives, and another dozen had been injured.

Serbian roulette is symptomatic of a lost generation of young Serbians who see little prospect for change and improvement. The hope and enthusiasm that were generated by the mass demonstrations in Belgrade and over a dozen other Serbian cities and towns following the local election fraud committed by the ruling leftist coalition in November 1996 have given way to despair and hopelessness. The biggest factor in triggering the pessimism was the implosion of the political opposition. The demonstrations last winter gave new life to an opposition that had hovered near the margins of political relevancy since the mass demonstrations of March 1991. Like those protests, the mass demonstrations after the 1996 elections seriously

shook Serbian President Slobodan Milosevic's hold on power but failed to topple him because of the opposition's indecisive and timid leadership.

The opposition coalition Zajedno (Together), comprised of the Serbian Renewal Movement (SPO), the Democratic Party (DS), and the Civic Alliance of Serbia (GSS), went into the elections expecting to lose; when Milosevic and his Socialist Party (SPS) were humiliated in crushing defeats in most of Serbia's main cities, the opposition was unprepared to take charge. When Milosevic then refused to recognize the election results, spontaneous demonstrations, galvanized by students and the former middle class, sprang up throughout Serbia, but Zajedno leaders were unable to channel the raw energy of the popular protests into concrete goals. Furthermore, Zajedno's leaders—Vuk Draskovic (president of the SPO), Zoran Djindjic (president of the DS), and Vesna Pesic (president of the GSS)—were quickly intoxicated by the number and determination of the protesters. They began to associate the mass demonstrations with their own popularity and failed to comprehend that the demonstrations were simply an indication of the level of dissatisfaction with and opposition to the Milosevic regime. As a result they quickly succumbed to petty bickering and rivalry. Both Draskovic and Djindjic thought that they, individually, were the crucial linchpin in the popular revolt against the regime. Each believed that he could outmaneuver the other and emerge as the principal opposition leader. This rivalry grew deeper as the demonstra-

OBRAD KESIC is the coordinator of the Democratic Transitions Program of the Washington-based International Research and Exchanges Board. He has provided commentary on Balkan affairs for National Public Radio, CNN International, and the Voice of America.

tions continued and eventually opened the door for Milosevic's survival.

The Zajedno leadership also did not have a clear vision as to what outcome it was prepared to pursue. Even at the height of the demonstrations during Orthodox Christmas (January 7) and New Year (January 14), the Zajedno leaders appeared indecisive; not wanting to push a Romanian scenario of armed revolt, they did not have the leadership skills to effect a Czech-style "velvet revolution." Milosevic's decision to hand over power in the disputed municipalities, including Belgrade, provided the Zajedno leadership a convenient exit from its dilemma of how far to take the demonstrations. It gave Zajedno an important short-term victory but allowed Milosevic enough time to consolidate his hold on power and lay the groundwork for the subsequent manipulation of presidential and parliamentary elections in 1997.

ENGINEERING MILOSEVIC'S COMEBACK

Milosevic's initial response to the demonstrations was poorly thought out and atypical of a man who was considered a master of political maneuver. He refused to acknowledge opposition victories and instead ordered a sloppy rigging of election results. This prolonged the crisis and generated greater support for the opposition as more people, appalled by the regime's arrogance and total disregard for the country's voters, joined the demonstrations. Milosevic's miscalculation—that the demonstrations would quickly die out as the winter weather worsened—also allowed time for the international community to add to the pressure on the regime. Compounding Milosevic's problems was open dissent within his own Socialist Party. Minister of Information Aleksandar Tijanic resigned and the Socialist mayor of Belgrade, Nebojsa Covic, was purged from the party because they did not back the party's refusal to recognize the opposition's victory.

As the demonstrations gained momentum and signs of discontent appeared even in the army and police, Milosevic quickly adjusted his strategy. He brought back one of the key figures in his rise to power, Milorad Vucelic, who had fallen from grace in 1995 and had been removed from his positions in the government and SPS. Vucelic was named a vice president of the SPS and was given free rein to reorganize the party and reinforce its hold on

power. Milosevic also forced his wife, Milica Markovic, who is greatly despised by the Serbia people, to remain out of the spotlight and force her party, the United Yugoslav Left (JUL), to take backseat in the ruling coalition. To reduce international pressure, he eased repressive measures against the independent media and restrained the police from committing major abuses. When he recognized that the handover of local power in most of the disputed municipalities was inevitable, he ordered the pillaging of local government resources and property. Most municipal property was transferred to the government of Serbia. Municipal media were plundered of equipment and supplies. The Socialists even went on a hiring spree, signing up dozens of local municipal employees, bloating municipal payrolls, and using strict employment laws to prevent the new municipal authorities from firing the new hires.

Vucelic, the architect of this strategy, also slowed the momentum of the demonstrations by arranging secret meetings with Djindjic and Draskovic. He encouraged each to believe that he was the only serious opposition leader and cultivated their suspicion of one another. Many opposition members thought that Vucelic's contact with the opposition indicated the beginning of a peaceful sharing of power; they did

not realize, until it was too late, that it was simply another delaying tactic designed to further split the opposition and undermine the protests.

After three months of demonstrations, Milosevic finally decided to accept defeat in over a dozen municipalities, but by the time the Serbian parliament passed a special law allowing the opposition to take power in these municipalities, he had succeeded in totally impoverishing and marginalizing municipal governments. He also used his domination of state media to publicize and widen the divisions within Zajedno. By June, Zajedno was no longer functioning as a coalition in Belgrade, although at the local level in Nis, Kragujevac, and other municipalities, the coalition survived. The cracks in Zajedno allowed Milosevic to renege on promises to liberalize electronic media, punish those responsible for the manipulation of local election results, and begin a serious dialogue with the opposition on new election laws that would guarantee freer and fairer elections for Serbia's president and parliament.

Milosevic's initial response to the demonstrations was poorly thought out and atypical of a man who was considered a master of political maneuver.

On July 15, the parliament of the Federal Republic of Yugoslavia elected Milosevic president of Yugoslavia. This change—he was limited to two terms under the Serbian constitution—indicated that Milosevic felt secure enough to assume an office that under the federal constitution had less authority than the president of Serbia; more important, it showed that he felt secure enough to risk losing the office of Serbia's president to an opposition candidate. To minimize the chances for failure in upcoming elections, Milosevic refused to negotiate new election laws with the opposition and instead had Serbia's parliament pass laws that all but assured that the SPS would be able to easily manipulate any future elections.

Milosevic's comeback was almost total; all that remained was to gain international support for his actions in Serbia. To achieve this he played four cards: the implosion of the opposition; a growing dispute among the Bosnian Serb ruling Serbian Democratic Party (SDS); the Kosovo crisis; and most important, the threat of the rise of Vojislav Seselj and his ultranationalist Serbian Radical Party (SRS).

The opposition's bickering had driven away most international support and had led to its complete marginalization in Serbia and abroad. Milosevic also used his leverage in Pale, centered around the Serb member of Bosnia's collective presidency, Momcilo Krajisnik, and the former president of the Serb Republic, Radovan Karadzic, as well as his agents in Banja Luka, the center of current Serb Republic President Biljana Plavsic's revolt against her own party (and against Karadzic and Krajisnik). He fueled their dispute and at key moments accelerated its pace in order to portray himself to the international community as the only serious Serb leader who could guarantee its interests in Bosnia.

Kosovo served as a threat to the international community; Milosevic could unleash at will a conflict that would rival Bosnia in producing a new wave of refugees.¹ He also used Kosovo to reinforce his image as the only patriotic and serious politician capable of standing up to international and Albanian pressure and keeping Kosovo an integral part of Serbia.

Seselj, who developed a reputation as an anti-Western, anti-American militant nationalist, also served as a threat to the international community;

Milosevic in effect said, "You can either support me or you can try dealing with him on Bosnia and Kosovo." To frighten the international community it was essential that Seselj be allowed to do well in parliamentary and presidential elections in September 1997. The lackluster support shown for Zoran Lilic, the former president of Yugoslavia and candidate of the ruling SPS, JUL, and New Democracy (ND) coalition, by his own party and its partners was evidence of Milosevic's desire to increase Seselj's potential as a bogeyman for the international community. But it came as little surprise to most observers that September's presidential elections failed to elect a president for Serbia because of voter turnout (under 50 percent), which prevented a Seselj victory. It also came as little surprise that only two months later the new candidate of the ruling coalition, Yugoslav Foreign Minister Milan Milutinovic, was able to win a convincing victory over Seselj and have his victory legitimized by a turnout of 51 percent. The success of Milosevic's strategy could be seen in the virtual lack of protest both in Serbia and in the international community over the blatant election manipulation orchestrated by the regime.

Milosevic's comeback was complete, but he could not breathe as comfortably as he would have liked since he still had several significant problems with which to grapple. Once again the master of political maneuver had bought himself some time, but he could not completely hide the chinks in his armor that had developed as a result of the mass demonstrations following the local election fiasco. Although the protests did not topple him, they did lay the foundation for his eventual demise.

WHERE THE STRATEGY HAS FAILED

Speculation that Milosevic's comeback is only temporary and that in the long run it may have been better for him to accept the sharing of power with a weak democratic opposition is based on several factors: a worsening economy; a crisis of the federal government; an untenable, loose alliance between Milosevic's leftist coalition, Seselj's Radicals, and Draskovic's SPO; trouble within Milosevic's leftist coalition; growing instability in Kosovo; and international pressure tied to Kosovo and Bosnia.

In order to win September's parliamentary elections and December's presidential elections, the Milosevic regime, in addition to manipulating election results, also had to buy social stability. It did this by spending over 100 million German marks from the sale of Serbia's postal and telephone company to Italian and Greek investors, and then print-

¹In the face of repression from the Serbian government, Kosovo's ethnic Albanians are demanding that the province become an international protectorate and that a referendum should be held to determine its future status.

ing more than 800 million dinars to pay pensions, health care costs, and state salaries. The printing of dinars triggered the fall of the dinar and a rise in inflation. The regime believes that it can once again rein in inflation by taking out of circulation the dinars it printed and by using another 200 million German marks from the postal and telephone company sale to pay for upcoming social services, but most economists believe that it will be unable to reimpose the fiscal discipline necessary to correct the damage caused by the new dinars. This belief is fueled by the loss of preferential trade treatment from the European Union and by continued lack of access to international financial institutions caused by an outer wall of sanctions maintained against Serbia and Montenegro by the international community. Compounding this problem is the corruption that has come to characterize Milosevic's regime, which has limited crucial economic reform that could have attracted international investment and stimulated a partial industrial recovery.

Added to Milosevic's economic woes is the lingering dispute with newly elected Montenegrin President Milo Djukanovic. Djukanovic, an open critic of Milosevic, was able to defeat Milosevic's ally, former Montenegrin President Momir Bulatovic, in the November 1997 elections. This led to Milosevic's decision not to recognize Djukanovic's victory and to impose an economic stranglehold on Montenegro. Milosevic is concerned because Djukanovic can use Montenegro's equal standing with Serbia to block his attempts to consolidate power as federal president; Djukanovic can use his seat on the National Security Council and key federal ministries to harass and check Milosevic. Milosevic has decided to pressure Djukanovic to cut a deal with him that would allow Djukanovic to assume Montenegro's presidency unchallenged and at the same time allow Milosevic the opportunity to formally consolidate power. Milosevic's heavy-handed tactics may trigger a popular backlash in Montenegro and fuel latent desires for independence.

In Serbia itself, Milosevic was forced to cut a deal with the two men (Seselj and Draskovic) he most despises in the Serbian opposition. This leftist-rightist unspoken agreement cannot last as Milosevic has already broken his gentleman's agreement with Seselj and mercilessly attacked him through state media during December's presidential elections. Seselj is reluctant to allow his agreement with

Milosevic to fall apart totally, since he benefited tremendously from his role as loyal opposition by gaining access to state television prior to December's elections. This allowed the Radical Party to firmly establish itself as the second most important political party in Serbia.

Draskovic's value to Milosevic is also diminishing now that the elections are over and Draskovic's SPO is imploding as a result of his ambitions to be president of Serbia, his role in Zajedno's demise (Draskovic sided with Milosevic to have Djindjic ousted as mayor of Belgrade), and his wife's family's notorious reputation for corruption in Belgrade's city government. Furthermore, Draskovic demands a high price for his participation in any coalition with Milosevic—including key ministries, such as foreign affairs and interior—that most SPS and JUL members are not willing to pay.

Milosevic's ability to significantly deliver on key issues of international concern has been greatly reduced.

As Milosevic attempts to maintain some kind of coalition with Draskovic and Seselj, he risks aggravating already deep splits within his own leftist coalition. Some Socialist officials, like Vucelic, used Milosevic's weakness following the demonstrations last year and the elections for Serbia's parliament and presidency to weaken JUL. Now that the elections are over, JUL will try to reexert its influence within Serbia's

government and will take revenge on those SPS officials it sees as potential enemies. This will inevitably lead to purges within the SPS and further hinder serious and much-needed reform.

Milosevic's use of Kosovo to once again bolster his political position in Serbia is a dangerous game that he cannot win. His refusal to begin dialogue with Ibrahim Rugova, the leader of Kosovo's 1.8 million Albanians and the president of the province's shadow government, has undermined the chances for a peaceful resolution of the Kosovo problem. Rugova's position has been greatly weakened in Kosovo because of growing popular dissatisfaction with his nonviolent approach toward Belgrade; a new, more militant Albanian movement for independence will make it more difficult to avoid bloodshed. This in turn fuels the popularity of Seselj and Serbian militants, reducing Milosevic's room for maneuver. The Socialists and their allies were able to secure only narrow victories in the last elections, and to accomplish even this modest success they had to manipulate election results and heavily play the nationalist card. The use of Kosovo as a part of their campaign platform has opened up

the serious risk of popular backlash if they backpedal on this issue.

Milosevic is like an elderly man who has immune deficiency; any of the problems he faces could prove fatal, but he could also linger and see his life slowly slip away. His time is also limited by his diminishing ability to manipulate the international community over Bosnia.

OUTSIDE PRESSURE?

Milosevic has used the international community, especially the United States, to bolster his image as a strong statesman inside Serbia. And by playing on America's focus on Bosnia, Milosevic has been able to trade the belief that he is the best guarantee for Serb compliance in Bosnia for an all-but-free pass from the international community on democratic reform in Serbia. An example of the success he has had in using the international community is the constant stream of made-for-CNN high-level diplomatic visits he has hosted. During his visit on the eve of September's elections, United States special envoy Richard Holbrooke even went so far as to criticize the Serbian democratic opposition's decision to boycott Milosevic's election sham. Milosevic's value as the guarantor of Serbian compliance with the Dayton agreement increased as Bosnian Serb politicians fought among themselves for power. Milosevic encouraged the conflict within the SDS and presented himself to the international community and his own public as an honest broker. For Serbian public consumption Milosevic has tried to portray himself as neutral in the squabble among Bosnian Serb leaders, but he has also branded Bosnian Serb President Plavsic a lackey of the West while allowing his media to portray her rivals as corrupt and incompetent.

Milosevic's tactics seemed to work; he was consistently rated the best statesman in countless public opinion polls conducted by Serbia's media. The problem with the international community's reliance on Milosevic is that it has received, and will likely continue to receive, very little in return. Milosevic, even if he wanted to, cannot do much to meet most of the demands of the international community concerning Kosovo or the war crimes tribunal in The Hague. The exception is the democratization of Serbia, which the West has proved willing to sacrifice for other interests.

Given the current political realities in Serbia, Milosevic must continue to periodically use the Kosovo question to raise nationalist passions to distract people from the real problems facing Serbia.

His need to continue his loose coalition with the right will also limit what he can do with Kosovo. Furthermore, he cannot risk alienating the military and security services by agreeing to extradite the three Yugoslav Army officers accused of war crimes committed in Vukovar in 1991. At the same time, although American officials privately claim that Milosevic has indicated a willingness to accept the arrest of Karadzic and would even provide information to facilitate it, he draws the line at actually involving Serbia directly in an attempt to seize the former Bosnian Serb leader.

The international community can continue to quietly support Milosevic, but there has to be an understanding that his ability to significantly deliver on key issues of international concern has been greatly reduced. More important, it should be understood that Milosevic is far more vulnerable than he may appear following his recent political victories, and that change in Serbia will occur regardless of the desires and actions of the international community.

THE OPPOSITION'S REALIGNMENT

The suicidal behavior of the opposition has greatly contributed to the survival of the Milosevic regime. However, even on this front things seem to be moving in a positive direction. The established political figures in the opposition have almost all suffered significant losses of credibility among Serbian voters. Vuk Draskovic in particular has seen his popularity plummet as he has waged two unsuccessful presidential campaigns in a span of three months. If nothing else has been accomplished, at least the opposition has received a loud wake-up call.

The SPO and the Radicals, in their flirtation with the ruling coalition, have become allies of the regime in combating the democratic opposition. Both parties are losing support throughout Serbia and the SPO has had significant disputes among its leaders. As Serbian political analyst Ognjen Pribicevic recently stated in a pre-election interview, "The defection of Draskovic and Seselj to the regime has at least clarified the state of the Serbian opposition. The parties that boycotted the last elections, along with [former Yugoslav Prime Minister] Milan Panic, have now become the nucleus of a new, more legitimate opposition to the regime."

In addition to unveiling the true nature of opposition leaders and parties, the events of the past six months have also cleared the way for new parties and faces to play a role in Serbia's politics. Among

the most promising of these new faces is an old face that brings new hope, Milan Panic. The Serbian-American businessman has managed to remain above the political bickering within the opposition while maintaining an active presence in Serbia's politics. He is consistently among the top three Serbian political personalities in most polls, even though he divides his time between Serbia and the United States (he holds dual Yugoslav-American citizenship). In recent months, petition drives for change and in support of Panic have sprung up throughout Serbia; prominent citizens in Nis have issued a declaration of support for Panic and change. If Panic is allowed to run in what most people expect to be new elections in 1998, he will be a serious threat to both Milosevic and Seselj.

Although many questions remain to be answered concerning Serbia's opposition, it is clear that the opposition must play a central role in showing leadership and political vision if peaceful political change is to occur in Serbia. This is something that it has proved incapable of doing in the past. Now, with a new realignment of forces, there is once again an opportunity for the opposition to play a positive role in initiating peaceful change in Serbia.

PALACE COUP OR POPULAR REVOLT?

Most political analysts are skeptical about the maturity of Serbia's opposition as well as the chances for peaceful political change in Serbia. Milosevic and his ruling coalition have shown utter disregard and contempt for Serbia's citizens. They openly manipulate elections and obstruct serious attempts at reform. This has served the short-term purpose of alienating many Serbs from politics, allowing the Socialists to maximize their diminishing base of support among voters. However, in the

long run it will create a more radicalized citizenry that will not be easily swayed by appeals for nonviolence and peaceful change.

Milosevic and his leftist coalition have closed the door on any significant opportunity for compromise. They live with the illusion that they can continually juggle all of Serbia's problems without having one of them come crashing down around their heads. The next six to eight months will determine the extent of Serbia's problems as well as the durability of the Milosevic regime. As the political and economic crises intensify, Milosevic will have to increase repression or allow greater liberalization. Either way he will be forced to make a move that will accelerate his downfall.

Currently the two most likely scenarios would be a palace coup or a popular revolt. A palace coup is likely as the economy worsens and as individual members of the regime begin to examine their long-term personal interests. Chances for such a coup will increase if JUL is able to reestablish its political influence at the expense of key figures such as Vucelic within the SPS hierarchy. JUL is so despised by the Serbian people that opinion polls have consistently shown that the SPS loses about a third of its potential base of support as a result of its coalition with JUL.

If people again take to the streets, they will not be satisfied with peacefully marching in circles, blowing whistles and banging pans. They will not be easily controlled by police brutality or by an unsure opposition. Like the youth who play Serbian roulette in Belgrade's streets, Milosevic and his political allies are risking everything on countless attempts at crossing Serbia's troubled political intersections unscathed. Sooner, rather than later, the law of averages will catch up with them. ■

"For the moment, the United States and the international community have offered Bosnia a lease on life, a respite from violence, and a schema for future development. But the long-term survival of Bosnia, in its Dayton configuration, is still very much in doubt. Political cultures can sometimes change quickly, but in the current contest between NATO-proclaimed democratic norms on the one side, and rival Balkan nationalist ideologies on the other, it is too early to declare a winner."

Whose Bosnia? The Politics of Nation Building

LENARD J. COHEN

Bosnia and Herzegovina begins a third year governed by the provisions of the Dayton peace agreement. Dayton, which established a cease-fire that ended a brutal civil war and outlined a framework for rebuilding the country, offered Bosnia's people temporary peace, international assistance, and the promise of a reintegrated multiethnic society. But the reality today is a country that is regionally fractured, ethnically divided, and strongly dependent on foreign assistance. The achievement wrought at Dayton was impressive, but it is obvious that unless the international community continues its substantial military and civilian involvement in Bosnia well into the next millennium, the country's political reintegration and viability will remain troubled. For some, the challenge of sustaining international engagement in the Balkans is an opportunity to demonstrate what the world community can accomplish. But for others, the audacious, albeit well-meaning effort by American-led foreign intervention forces and their civilian coworkers to "fabricate" Bosnia's transformation, is destined to fail.

DAYTON ADRIFT

In the spring of 1997, the international community adopted a more "robust" approach in implementing the 1995 Dayton accords. This new approach stemmed from the recognition, both by Dayton's architects and supporters, that while the

NATO-led military mission (first the Implementation Force, IFOR, and after December 1996 the Stabilization Force, SFOR) had achieved Dayton's military objectives, progress on the agreement's civilian components was seriously stalled. It was also recognized that civilian implementation would be severely hampered by the scheduled withdrawal of NATO forces from Bosnia in mid-1998.

By the time more assertive international action was contemplated, some 18 months after negotiation of the peace accord, the leaders of Bosnia's two Dayton-approved "entities"—the Muslim-Croat Federation and the Serb Republic—had made little progress in forming common political, economic, and security institutions, and only about 300,000 out of an estimated 1.8 million Bosnian refugees and displaced persons had returned to their homes. At the same time, freedom of movement across interentity boundaries remained extremely difficult, and very few indicted war criminals had been apprehended. Economic reconstruction was also painfully slow, and a secure environment to attract private enterprise was lacking. Deep distrust persisted among the leaders of the country's three major ethnic communities.

Though multiparty elections for representative and executive bodies above the local level were successfully held throughout the country in September 1996, the results reconfirmed the domination of the three major nationalist parties that had monopolized the political landscape since 1990: the Serbian Democratic Party, the Croatian Democratic Alliance, and the (predominantly Muslim) Party of Democratic Action. During the elections ethnic divisions

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sharpened in major centers of tension, such as the Muslim-Croat Federation city of Mostar, where Croats and Muslims were bitterly at odds, and the Serb Republic city of Brcko, where Serbs and Muslims fiercely competed for control.

The elites of the three nationalist parties had starkly different ideas about what state development entailed. For the Muslim political elite, the Bosnia conceived at Dayton would have a relatively strong centralized state—an integrated Bosnia—in which the citizens of all ethnic groups would share a common “Bosnian consciousness.” From that perspective, the country’s two-entity configuration was simply a Dayton-inspired political expedient to end the war. For the majority of Muslims, any effort to treat the entities as independent state units, or to strengthen the power of those units at the expense of the central government, was considered unconstitutional.

In sharp contrast, for most of the Bosnian Serb elite and citizenry, Bosnia was an illegitimate and artificial creation. The Bosnian Serb leadership maintained that the Serb Republic already enjoyed a semi-independent status (with interentity boundary lines considered tantamount to state borders), or at the least a prestate transitional arrangement pending the republic’s eventual secession from Bosnia and unification with Serbia and Montenegro (in the rump Yugoslavia). The goal of Serb leaders was to preserve and expand entity “sovereignty.” In their view, the Muslims and their supporters in the international community were insidiously revising Dayton and expanding the power of the country’s central authorities.

Meanwhile, the Bosnian Croats, who were constitutionally linked to the Muslims through the federation entity, generally took a more flexible position than the Serbs regarding the question of central versus entity powers, and also that of interentity cooperation. Nevertheless, the Croats staunchly opposed the idea of “unitarism,” that is, efforts by the Muslim side to assert political domination through Bosnia’s central institutions. Most of Bosnia’s territory with a predominantly Croat population was already under the control of the Bosnian Croats, or more accurately, their sponsors in Zagreb. Thus, the Croat strategy of state building in Bosnia was to ignore the central government in Sarajevo and emphasize Croat rights and claims to equal representation in the Muslim-Croat Federation.

Prepared to postpone any final judgment on whether Bosnia would survive as a viable state or eventually be partitioned, the Croats were willing to settle for the side-by-side coexistence of three rel-

atively homogeneous ethnic enclaves. Still, survey conducted by the United States Information Agency in Bosnia in July 1997 revealed that 83 percent of the Muslim respondents believed that all three major nationalities could live peacefully together, but that 81 percent of the Croats and 95 percent of the Serbs interviewed thought that the partition of the country was inevitable.

PUTTING DAYTON BACK ON COURSE

During the fall 1996 American presidential election, the Clinton administration downplayed the situation in Bosnia, except to mention that the country was at peace and elections had been held. But by early 1997, the dangers of this benign approach were becoming more apparent. Fears that the Dayton project might unravel provoked particular concern among administration officials who favored a robust United States and international engagement in the Balkans. The main concern in Washington was not so much that the United States would prove unable to deliver on its promise to withdraw its ground troops from Bosnia by mid 1998 (few observers ever believed that would happen), but that the entire Dayton project would collapse, thus compelling American forces in Bosnia either to withdraw in failure or remain as a buffer against renewed fighting.

Proponents of a more assertive United States and international presence in Bosnia, especially the new American secretary of state, Madeleine K. Albright emphasized the close linkage between success in Bosnia and NATO’s broader strategy for providing European stability. Administration officials portrayed Bosnia as a showcase of NATO credibility and capability, a demonstration believed to be crucial if NATO’s imminent enlargement was to prove successful. Indeed, the Dayton project, and the enormous international investment in Bosnia’s success made the country an important testing ground for postcommunist political and economic transformation throughout Eurasia. Because Bosnia was also critical to the overall stability of the complex and volatile southeastern European and eastern Mediterranean regions, it was regarded as a country that NATO could not afford to abandon. Finally the peace negotiated at Dayton was viewed as an imposing example of successful American global and moral leadership. As such, the Bosnia mission which had proceeded without American military casualties, was deemed cost-effective. For Secretary Albright and others who claimed to be unburdened by the constraints of the “Vietnam syndrome” and

who eschewed the "Munich mind-set," American leadership in Bosnia positioned the United States to take the moral high ground of combating aggressive and intolerant nationalism.

At Sintra, Portugal, in May 1997, the Peace Implementation Council's steering committee, which guides Dayton's civilian side, took some limited steps to reinvigorate the badly stalled efforts in Bosnia. Specific deadlines were set and pressure applied to fulfill a number of Dayton's civilian goals (appointment of new ambassadors, delivery of indicted war criminals, passage of citizenship laws, reform of property laws, police restructuring). Measures were to be taken if the leaders of Bosnia's three ethnic groups failed to reach scheduled agreement on these issues. A new policy of "conditionality" was adopted, whereby those political forces in Bosnia that resisted full compliance with Dayton were to be denied foreign assistance.

Conditional assistance, however, required a commitment to implement negative measures if goals and schedules were flaunted by any of Bosnia's contending forces. But the political and economic situation in the country was stalemated to such a degree that withholding material assistance from intransigent parties could only compound local difficulties and seriously undermine the Dayton "experiment." The difficulties of enforcing the policy of conditionality, together with the expectation that the international community would eventually tire of the Dayton project, encouraged the most intransigent and potentially radical political elements in Bosnia to bide their time.

OPPORTUNITY KNOCKS

Both during and after the war in Bosnia, the Bosnian Serb political leadership had been the most

obstreperous party in negotiations with the international community. In the summer of 1996, Dayton's chief architect, the American diplomat Richard Holbrooke, had brokered a deal under which the president of the Serb Republic, Radovan Karadzic, who was under indictment by the International Criminal Tribunal for the Former Yugoslavia, would retire from political life. But to the frustration of his designated successor, Serbian Democratic Party (SDS) leader Biljana Plavsic, and the international

community, Karadzic continued to direct the course of the Serb Republic's development from the shadows.

Plavsic had been a politically independent biology professor in socialist Yugoslavia; she joined the SDS in 1990 and became well known for her strident Serbian nationalism and anti-Muslim views. In the September 1996 election, Plavsic successfully ran as the SDS candidate for president of the Serb



Republic. As president, Plavsic became increasingly angered by Karadzic's efforts to manipulate the government and weaken her personal control; at the end of June 1997, Karadzic loyalists tried to kidnap her, but the SFOR troops helped thwart the attempt.

Only days later, in a startling turn of events, Plavsic publicly accused both Karadzic and his ally, Momcilo Krajisnik (the Bosnian Serb member in Bosnia's three-person central presidency), of corruption. Determined to break the political control of her opponents, she attempted to dismiss the minister of the interior, Dragan Kijac (another Karadzic loyalist), and when thwarted, dissolved the Serb Republic National Assembly. These moves polarized the Bosnian Serb power structure, with Plavsic supporters concentrated at Banja Luka, the major regional city in western Bosnia, and Karadzic's fol-

lowers encamped at their eastern Bosnian stronghold of Pale. Attacking the SDS for monopolizing political life in the Serb Republic through the operation of a "party state" and "party media," Plavsic set the stage for a major turnabout in the course of Bosnian Serb political life, and in a broader sense, the prospects for Dayton's success. Despite fierce pressure and threats from hard-liners loyal to the Karadzic faction, many SDS activists declared their allegiance to Plavsic's emerging program of anticorruption and "pragmatic nationalism."

The Bosnian Serb power struggle was to a large extent an intraparty clash of personalities and political perspectives. But intra-Serb rifts also derived from the growing international pressure on the Serb Republic to comply with the Dayton accords. Plavsic fully realized that until Karadzic was politically marginalized and Krajisnik made to cooperate in the Bosnian presidency, the Serb Republic would remain isolated and unable to obtain international economic assistance. She also knew that Washington and its allies would applaud her attack on the hard-line SDS faction. Yet, given her own SDS nationalist past, Plavsic's break with the Karadzic faction was personally difficult and politically risky. Indeed, at the outset of the crisis, the Karadzic clique controlled almost all the Serb Republic army and security forces, as well as the state's banking, postal, and telephone operations.

Plavsic gambled and won. Having previously looked in vain for a cooperative Bosnian Serb leader, the international community rushed to embrace her professed pragmatism and new pluralist impulses. When negotiating and trying to implement the Dayton accords, the international community had relied primarily on Serbian President Slobodan Milosevic in Belgrade to put pressure on the Bosnian Serbs. However, during the late fall of 1996 and the first part of 1997, Milosevic had been preoccupied with a serious domestic power struggle. With confusion in Serbia, Plavsic's defection from the Pale Serb clique offered Washington a new point of leverage to advance the Dayton model of a unified Bosnia.

Meanwhile, engaged in a no-holds-barred battle with her Serb enemies, and painfully aware of the growing socioeconomic gap between the Serb Republic and the Muslim-Croat Federation (the latter had been receiving significant foreign assistance), Plavsic was prepared to bid for international aid, even if that meant temporarily accommodating Dayton's sponsors and toning down her personal views regarding Serb interests and Serb Republic sovereignty.

As intra-Serb divisions deepened in the summer of 1997, momentum developed on Dayton's civilian objectives. In July, British SFOR troops mounted an operation to apprehend Bosnian Serbs indicted as war criminals, an action that resulted in the arrest of one suspect and the death of another. However, Karadzic, the top war crimes suspect, remained at large and very influential in eastern Bosnia.

In August, the Clinton administration sent its top Bosnian troubleshooters, special envoy Richard Holbrooke and Ambassador Robert Gelbard (the assistant secretary of state for the implementation of the Dayton accords), on another Balkan shuttle mission. The achievements of the mission were modest, although the members of Bosnia's presidency were finally pressed into agreeing on the appointment of ambassadors from their country.

While Holbrooke naturally accentuated the positive impact of his mission—"We picked up some steam, and we closed the gap"—he was very aware as he left Bosnia of the deep divisions remaining in the country, and the many unfulfilled aspects of his Dayton agreement. Little progress was being made, for instance, on the problem of returning refugees and displaced persons to their former homes. The situation was especially disappointing with regard to the return of uprooted citizens to areas where they had been, or had become—because of the war and ethnic cleansing by one side or another—a minority of the population.

THE FRAGILE FEDERATION

For the Clinton administration, the power struggle within the Bosnian Serb leadership provided an excellent opportunity to establish closer links between Bosnia's two hostile entities. But building ties was constrained by the chilly relations between the Muslims and Croats in their federation. That negative climate derived mainly from Croatian President Franjo Tudjman's decidedly anti-Muslim sentiments and his long-standing belief that Bosnia would eventually prove unworkable as a unified state. Tudjman's preference for partitioning Bosnia accounted for Zagreb's lukewarm support for the Dayton project. Meanwhile, Bosnian President Alija Izetbegovic and the more radical Islamic members of the Bosnian Muslim political and security establishment were anxious to advance their own political interests through the Dayton process, and highly skeptical of the political intentions of their Croatian allies in the federation. After all, the Muslims were the largest ethnic group in Bosnia, had suffered greatly in the war, and were desperately try-

ing to assert their nationhood in Bosnia's fragmented political architecture.

To try to reduce Muslim-Croat enmity, Washington focused on two contentious areas: the attempt to forge a new military structure for the federation from forces of the Croat Defense Council and the predominantly Muslim army of Bosnia, and relations between Croats and Muslims in Mostar.

A unified federation military structure was closely linked to the Dayton goal of achieving an overall military balance in Bosnia. That plan called for both a program of regional arms control (by November 1997, some 6,700 heavy weapons had been destroyed by the Serb Republic military and the federation army) and a military buildup of joint Muslim-Croat forces under the United States "Train and Equip" program.

During 1996, the United States successfully pressured President Izetbegovic to remove his close friend and radical Muslim minister of defense, Hasan Cengic, before military hardware earmarked for the federation was delivered. Both Washington and Zagreb viewed Cengic, who was instrumental in the Bosnian government's close connection with Iran, and the growing religious orientation of the Bosnian Muslim armed forces, as major impediments to the spirit of Dayton. But Cengic's forced resignation did not eliminate the strong political influence of his faction. Throughout 1997, Iranian agents in Bosnia continued to collaborate closely with elements in Bosnia's intelligence service. This pro-Iranian faction directed its activities at preserving the Islamic orientation of Bosnia and controlling the federation's growing stock of military resources (paid for by the wealthy Islamic countries and supplied by the United States). This pro-Islamic activity in the Bosnian Muslim political-security establishment was deeply resented by the Bosnian Croats, not to mention the Croatian elite in Zagreb, and was a major impediment to cross-ethnic integration in the federation. Thus, though notable progress was made during 1997 in forming a joint Muslim-Croat command structure, and also in initiating

combined Muslim-Croat schooling for officers at new military schools, a genuinely unified federation army did not emerge, and conscripts still trained in ethnically segregated brigades.

The Zagreb regime and its Croat allies in Bosnia were also equally responsible for obstructing the federation's development as a cohesive political unit. Tudjman's overall record with respect to moderating the militancy of the Bosnian Croats was disappointing. For example, in early 1997 Tudjman decorated a Croat police official from Mostar not long after members of the police force had killed 1 Muslim and wounded another 20 members of the community who were visiting an Islamic cemetery in Croat West Mostar. That incident was followed by the Croat eviction of several Mostar Muslim families from their homes, a local variant of ethnic cleansing, that was only partially reversed by the intervention of SFOR troops.

It was only in the fall of 1997, after intense American pressure—including blocking World Bank and IMF loans to Croatia and threatening to cut off military aid to the country—that Tudjman was finally induced to assist in improving Bosnian Croat compliance with Dayton. In September Tudjman ordered Bosnian Croat leaders to rescind their planned boycott of municipal elections that were to be supervised by the Organization for Security and Cooperation in Europe (OSCE). Washington's most high-profile success in Zagreb occurred a month later, when Tudjman allowed 10 Bosnian Croats indicted for war crimes to be sent to The Hague for trial.¹ (Croatian authorities explained that they had agreed to send the indicted individuals to The Hague only after assurances that the proceedings against the accused would be carried out fairly and quickly.) Croatian cooperation was also reflected in the resignation of several hard-line Bosnian Croat politicians in Mostar. For the moment at least, Croatian resistance to the international community's interpretation of Dayton's requirements appeared to be softening.

EMERGENT PLURALISM

The electoral recruitment of pluralist and non-nationalist politicians is an important component of the Dayton peace-building project. The September 1996 elections were something of a letdown in this regard, but substantially more progress was made the following fall. In September 1997, OSCE-managed polls were held in Bosnia's 136 municipi-

*Tudjman's preference
for partitioning
Bosnia accounted for
Zagreb's lukewarm
support for the
Dayton project.*

¹Since its founding in 1993, the International Criminal Tribunal for the Former Yugoslavia has publicly indicted 78 war crimes suspects (an undisclosed number are under sealed indictments). During the second half of 1997, the number of indictees held at The Hague tripled from 7 to 21 (mostly Croats), but Yugoslavia and the Serb Republic continued to resist cooperation with the tribunal.

palities; nearly 5,000 candidates were elected, representing 79 parties. Though the absence of a free media and free movement across interentity boundary lines seriously undermined the democratic character of the election, the voting was an impressive exercise in electoral logistics, including the absentee ballot participation of Bosnian refugees from around the world and displaced persons throughout Bosnia.

Not surprisingly, given their organizational resources and grip on power since 1990, the three ruling nationalist parties won approximately two-thirds of the council seats throughout the country. Nonnationalist parties—those that do not exclusively represent the rights of one ethnic group—won only about 6 percent of council seats in Bosnia (approximately 12 percent in the Muslim-Croat Federation and 2 percent in the Serb Republic). Nonnationalist parties captured a majority of the council seats in only one municipality (Tuzla, already renowned for its support for ethnic pluralism and civic democracy).

Despite the continued political dominance of the old nationalist parties, there were some significant changes that emerged from the election. In the Serb Republic, where the intra-Serb power struggle had become intense, the ruling SDS lost considerable ground, especially in the west Bosnian municipalities supporting Biljana Plavsic. Plavsic (who had been expelled from the SDS in July and had formed her own party, the Serbian People's Alliance, or SNS, in August) was still organizationally unprepared to benefit from voters' dissatisfaction with the pro-Karadzic SDS loyalists. Thus, a good deal of the vote lost by the SDS was picked up by the equally, if not more, nationalistic Serbian Radical Party (SRP)—the Bosnian branch of the party that, in Serbia, is led by the extremist Vojislav Seselj. Many Bosnian voters regarded the SRP candidates as honest nationalists, as opposed to the discredited Karadzic group headquartered at Pale. However, many other Bosnian Serbs voted for the Serb Radicals simply to thumb their noses at the international community.

Though the nationalist parties carried the day in the local elections, parties representing refugees and displaced persons and urging the right of uprooted citizens to return to their prewar municipalities also fared well. In a half dozen municipalities, candidates from such parties won 50 percent or more of

the council seats—five localities in the federation and one in the Serb Republic. These results demonstrated that a large percentage of uprooted citizens wanted to return to their homes or to politically influence events across interentity boundary lines. It was unclear, however, whether candidates representing displaced persons and refugees would be able to freely participate in local affairs.

The parliamentary elections held two months later, in November 1997, for the Serb Republic National Assembly went a small step further in delegitimizing the SDS hard-liners. By November Plavsic's new SNS had acquired a more substantial organizational shape, and its members were able to portray themselves as "honest" or "soft" nationalists. The voting, in which approximately 70 percent of the republic's electorate cast ballots, resulted in a sharp setback for the Karadzic clique running the

Most Serbs and some foreign observers questioned whether . . . Bosnia was not becoming a de facto United States protectorate.

SDS, which won only 24 of 83 seats in the Assembly, down from a majority of 45 seats. Plavsic's SNS won 15 seats. However, the Serb Radicals increased their contingent in the legislature from 6 to 15 members. This led to an SDS-SRP alliance that (with 39 seats) was only 3 shy of the 42 seats needed to form a parliamentary majority. Though clearly the nationalist hold on the Serb Republic was not broken—in view of Plavsic's longtime commitment to Serbian nationalism,

not to mention the surge of the Radicals—the political scene in the internally fractured republic had become substantially more pluralistic.

Interparty wrangling in the Serb Republic assembly continued into early 1998, when the moderate leader of the Independent Social Democrats, Milorad Dodik, was finally selected, over the objections of the nationalist parties, to be prime minister of a minority (pro-Plavsic, pro-Dayton) "national unity" government. Within days of Dodik's election, nationalist hard-liners were being purged from the Serb Republic elite, and the international community was offering the entity generous foreign assistance. The extremely pragmatic Dodik also has excellent relations with Yugoslav President Slobodan Milosevic.

CREATING A PROTECTORATE?

During the last few months of 1997, foreign officials in Bosnia appreciably stepped up their efforts to impede forces perceived as "anti-Dayton." Special attention was directed at ending the media

monopoly of Bosnian Serb hard-liners. In October, SFOR troops seized control of four Bosnian Serb television transmitters after Serb Radio-TV (SRT) compared NATO forces to the World War II Nazi army of occupation, criticized the international war crimes tribunal at The Hague for being a "political instrument aimed at pressurizing the Serbs," and distorted press conference remarks of war crimes prosecutor Louise Arbour by portraying Serbian war crimes suspects in a positive light. The SRT broadcasting apparatus was turned over to the international community's more cooperative Serb partner, Biljana Plavsic, under the supervision of "foreign professionals." SFOR also closed down a pro-Karadzic pirate television transmitter. Most Serbs and some foreign observers questioned whether being "anti-Dayton" was starting to resemble the cold war epithet "un-American," and whether Bosnia was not becoming a *de facto* United States protectorate.

While the precise character of American and NATO engagement in Bosnia remained a subject of debate, by early October members of the Clinton administration began to hint more strongly at the possibility that American troops would remain in Bosnia after mid-1998. Administration officials now worried that without United States ground troops in Bosnia, other countries participating in SFOR would depart; moreover, Washington would no longer be able to maintain operational control of the NATO mission. In view of parallel plans for NATO enlargement, such scenarios were regarded as unacceptable. For most of Clinton's foreign policy advisers, the issues of European stability and NATO and United States credibility, which had helped prompt and justify initial American participation on the ground in Bosnia, remained more significant than ever.

In early November, Secretary of State Albright indicated that a "consensus" was slowly forming between the United States and its allies for a post-SFOR mission. She proudly pointed to the closure of the SRT broadcasts "used to incite hatred and violence," and the diminished power of anti-Dayton police elements. Albright also suggested that Plavsic's cooperation illustrated how "accountability breeds pragmatism." The day after Albright's remarks, following a meeting with congressional leaders, a White House spokesman said President Bill Clinton seemed to think that he could "build a consensus" for an extended but downsized United States military role in Bosnia. Administration officials downplayed the danger of "mission creep" and focused on the need to restructure—with enhanced

burden-sharing by American allies—the unarmed, UN-organized International Police Task Force in Bosnia. It was hoped that over time the military could be replaced by a larger and armed international police contingent in Bosnia that would have authority to enforce the law.

The new United States determination to maintain a substantial military presence in Bosnia was closely linked to fortifying the civilian side of the Dayton project. Despite the resolve shown at Sintra in May, it had been clear for some time that the high representative—the official designated under the Dayton agreement as the final authority on all aspects of civilian implementation—had been unable to persuade the divided Bosnian leaders to reach decisions on fundamental issues for state development (for example, citizenship rights, common currency, common flag and symbols, common license plates and tariff rules). To expedite the decision-making process in Bosnia's central government, a meeting of the Peace Implementation Council held in Bonn on December 9 endorsed a broadened interpretation of provisions in the Dayton agreement that would allow the high representative to use a process of "binding arbitration" and to adopt "interim measures" to implement pending decisions. Such authority included removing officials or persons occupying public posts who were not cooperating with Dayton. Strict deadlines were also set for the implementation of various measures, as well as for an inventory of major problems that needed to be addressed.

High Representative Carlos Westendorp lost no time in implementing his expanded authority and within a week of the Bonn meeting he handed down the first of what were being called "interim arbitral decisions," effectively ordering that a law on citizenship in Bosnia would become effective on January 1, 1998. The procedure, which has since been used to deal with other matters (for example, on January 15, when the presidency could not reach agreement on the design of Bosnia's currency, Westendorp said he would decide), envisions that the Bosnian parliament will eventually pass a specific law on each matter, but that the country's Council of Ministers can legally implement the interim decisions made by the high representative. Under the new Bonn guidelines, the high representative, if not yet the proconsul of a protectorate, has in essence become the grand arbitrator of Bosnia. Westendorp referred to himself as a "friendly arbitrator." "In the future," he observed in an interview in the Sarajevo paper *Slobodna Bosna*, "I will put an

end to all that endless decision making. . . If the parties do not agree, I will tell them, no problem. I will make the decision for them. And I will. . . And if they systematically block Dayton I will ask those who are not cooperating to resign."

Westendorp rejected the idea that the Bonn meeting had established a protectorate.² However, by early 1998 he had adopted a more imperial brand of civilian implementation. For example, when the caretaker Serb Republic prime minister, Gojko Klicekovic, gave an interview to Montenegrin television that Westendorp deemed to be inflammatory, the office of the high representative announced that the Serb leader would be barred from running in the September 1998 elections and would face criminal charges. Under the Titoist regime in Yugoslavia, expression of extreme nationalist views had been a political crime (though such legal strictures did little to alter deep-seated popular beliefs); in the new NATO-backed semiprotectorate of Bosnia, expression of similar sentiments has become a high-risk enterprise. Westendorp's approach may indeed be appropriate given Bosnia's incendiary atmosphere. But the action—in the absence of a genuine rule-of-law framework—raises troubling questions about the limits of free expression under the Dayton model.

Less than two weeks after the Bonn meeting, President Clinton publicly announced that once SFOR's mandate terminated in mid-1998, American troops would take part in a downsized follow-on force (the Deterrent Force, or DFOR). He conceded that a year earlier he had underestimated the time frame in which military support would be needed to guarantee a "lasting peace" through the civilian implementation of the Dayton accord. The details of DFOR's objectives and size were to be worked out. But unlike the earlier IFOR and SFOR deployments, no specific deadline would be offered for ending the mission. The president stressed that the objectives to be formulated would focus on creating a "self-sustaining secure environment" that would eventually permit the removal of NATO forces from Bosnia. He expressed his vague but optimistic belief

that the new mission's broad objectives could be fulfilled in the "near term," and rejected the idea that NATO needed a "permanent presence" in Bosnia. Having already made an enormous investment in the Dayton project, the United States now seemed fully prepared to invest a good deal more money and time to make the peace agreement succeed.

DAUNTING CHALLENGES, DURABLE DIVISIONS

Clinton's decision to extend the United States military commitment in Bosnia beyond mid-1998, though widely expected, opened a new phase in post-Dayton development. Indeed, with the issue of providing military security more or less settled for the short run, and with the second round of countrywide elections scheduled for the fall of 1998, Washington seemed likely to push forward the civilian implementation of Dayton as quickly as possible. Three important issues will undoubtedly receive major attention this year: the return of refugees and displaced persons, the arrest of war crimes suspects, and economic reconstruction.

What effect stepped-up activity on these issues will have on the goal of achieving Bosnia's unity remains an open question. It is impossible to determine how many refugees and displaced persons will return home. Since the war's end, a large number of Bosnian refugees of varied ethnic backgrounds have settled elsewhere in the region or outside southeastern Europe and may not wish to return home (compensation for their losses is a separate question). Moreover, even if minority returns are successful, it will be a long and potentially difficult process for a peaceful political dynamic to emerge between reintegrated citizens from different ethnic communities.

As for the international tribunal on war crimes the higher the rank of any suspects arrested, the more likely the initial repercussions will cause political tremors rather than stability. It is also probable that the trial proceedings of leading personalities will be protracted. In any case, only time will tell whether tangible long-term benefits for Bosnia's peaceful political development will actually flow from a more assertive NATO role in assisting the war crimes tribunal. Thus, in the short run at least, the important goal of achieving justice may be at odds with interethnic reconciliation. For many international officials in Bosnia today, the question of arresting high-level suspects has less to do with the rule of law than with the need to eliminate the immediate political and economic influence of Bosnian Serb suspects such as Radovan Karadzic.

²Westendorp's spokesman, Simon Haselock, claimed that the high representative was "not looking for a protectorate," but added that "those individuals at any level who are seen as being anti-Dayton. . . can be removed from office." Meanwhile, Westendorp noted in a December press conference that "it is bad when you have to democratize a country with the use of force, but in this case when you have such an abnormal mentality in the leadership, then you have to do that."

In the area of economic recovery, considerable progress has already been made. It has been estimated that because of the infusion of investment by foreign agencies—more than \$2 billion over two years—the economy of Bosnia grew 50 percent in 1996 and roughly 35 percent in 1997. The enormous change in Sarajevo, which boasts new shops, refurbished hotels, and crowded cafés, is frequently noted by foreign visitors.

On the negative side, a large part of the population, especially outside Sarajevo, remains jobless—roughly 50 percent unemployment in the federation and 90 percent in the Serb Republic. The unemployed are often forced to rely on private gardens for sustenance or depend on international welfare agencies and remittances from abroad. It has also been extremely difficult to build a self-sustaining private sector that can attract private foreign investment. Moreover, while economic growth has resumed, industrial production is only a fraction of its pre-war level. An additional difficulty has been the task of integrating Communist-era economic structures with new market-oriented arrangements. Problems of transition, and the legacy of the wartime economy, have also encouraged the growth of corruption and organized crime, which have seriously impeded the process of reconstruction in both entities.

One of the most disturbing aspects of economic development has been the growing imbalance between the two entities. Because of the Bosnian Serbs' unwillingness to cooperate with the international community on Dayton's implementation, the overwhelming portion of economic assistance has gone to the federation. Thus the Serb Republic, though less damaged than the federation during the war and endowed with mines and agricultural potential, has become increasingly impoverished.

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Farmland and factories remain idle, and some believe that the economy has actually contracted since the end of the war. The result is a dangerous economic gap that could impede the country's reintegration. On the brighter side, surveys indicate considerable sympathy among all ethnic groups in Bosnia for enhanced interentity trade links. Such sentiment among the Bosnian Serbs, and also a recognition of the severe economic difficulties facing the Serb Republic, have undoubtedly contributed to the more pragmatic bent exhibited by the Plavsic forces in Banja Luka.³

NATO VERSUS NATIONALISM

It is frequently observed that there is little need to propose the partition of Bosnia because *de facto* partition already exists. There is little doubt that the country is profoundly segmented, and that the central government enjoys the allegiance of only a portion of the total population. However, the enormous international investment in the implementation of the Dayton agreement—especially the United States decision to provide an open-ended NATO security guarantee for Bosnia and the partial achievements made during 1996 and 1997—have temporarily increased the country's chances of survival.

But Bosnia, as Deputy High Representative Jacques Klein has aptly pointed out, "is like a seriously ill patient receiving a blood transfusion. If the blood is turned off the patient will die." Bosnia's chronic condition is largely attributable to the fact that most of its political elite, and the political leaders in neighboring Croatia and Serbia, do not support the imposed compromise between central authority and ethnic segmentation that they were compelled to endorse at Dayton in 1995. The views of these leaders both perpetuate and reflect attitudes that are deeply held within Bosnia's various ethnic communities. The thesis that Bosnia was an "oasis of harmony" before 1992, and that all will once again be well when the "evil warlords" who manufactured intergroup animosity through media manipulation are removed, is as shallow as the counterargument attributing Bosnia's ethnic conflicts to "ancient hatreds." Incremental progress has occurred in some areas, but reconciliation is still lacking as a basis to unify Bosnia.

The difficulty of interethnic rapprochement in Bosnia cannot simply be explained by Bosnian Serb intransigence. During 1997, Muslim educational

³An important test of interentity and interethnic accommodation will come in March 1998 when, under the terms of a compromise negotiated at Dayton, an American lawyer, Robert Owen, is to make a final decision concerning the status of the Brcko municipality. Currently, Brcko is in the Serb Republic and has a mainly Serb population, but many of its prewar Muslim majority wish to return and place the city under the federation's rule. The town's strategic location in the narrow corridor linking the east and west Serb Republic subregions adds to its sensitivity. In the meantime, Brcko's American "international supervisor," Robert Farrand, has established a multinational administration for the municipality, including a multiethnic police force and judiciary.

officials suggested a plan—ultimately scrapped after foreign pressure—that would have segregated Croat and Muslim schoolchildren in the federation. And in Sarajevo, a city that is now 87 percent Muslim but which before the war was roughly 30 percent Serb, the city government has blocked the return of most Serbs.

Even the core of the Bosnian Muslim elite, who evince the most support for Dayton, are unreconciled to the international community's idea that a multiethnic or civic identity should transcend allegiance to nationalist ideologies. As Bosnia's Muslim president, Alija Izetbegovic, told the second congress of his ruling SDA in September 1997: "There is no turning back to a conflict-free and nonnational Bosnia. The Bosniak [Muslim] people, now that it has become aware of itself. . . will never again give up its Bosniak identity as a nation, and Islam as its spiritual component." And, Izetbegovic added, the best to be hoped for would be to "harmonize the unalterable fate of nationality. . . We will be satisfied if we have Croats in Bosnia instead of Greater Croats, and normal Serbs instead of Greater Serbs." Most Serbs and Croats, within and outside Bosnia, regard Izetbegovic's well-known views as offensive, and as an argument for Muslim domination in Bosnia.

It is noteworthy that throughout most of 1997 and early 1998, the sharpest and most sustained attacks on the Muslims' political role in Bosnia have not come from the Serbs, but from the Croats. Croatian President Tudjman observed in December 1997 that "Croatian Herzegovina is historically a part of the Croatian national nucleus. . . We agreed to a Croat-Muslim Federation but only on condition that ties with Croatia were maintained. Otherwise the Croatian minority will be Islamicized." Thus, the Croatian leader remains unreconciled to Dayton's provisions for a strong central government, while Izetbegovic balks at any expansion of the power of the entities, cantons, or municipalities.

Izetbegovic and Tudjman are likely to depart from the political scene in the near future, but their views are shared by most of their fellow ethnic leaders. Following Clinton's Christmas 1997 visit to Bosnia, the Bosnian Croat member of the country's presidency, Kresimir Zubak, echoed Tudjman's views, adding that he believed that because Muslims were trying to dominate Bosnia they were an "unsatisfactory partner" in the federation. "The problem of the Bosniaks is that they have not con-

stituted themselves as a nation, and will perhaps not become a nation in the next 50 years." Zubak further maintained that by building their national identity, the Muslims feel they have the "exclusive right to Bosnia."

During the first months of 1998, international officials working in Bosnia counted on their new relationship with the "pragmatic" Serbs in Banja Luka to ameliorate the problems of interentity and interethnic discord that had plagued Dayton's implementation for two years. While some breakthroughs may occur in the short run, there is reason to wonder whether Biljana Plavsic and her coterie of "soft nationalists" will actually lead the way toward the type of country most international officials envisage as the Dayton model. (Plavsic's ally, Prime Minister Dodik, has indicated that although he wishes to cooperate with the international community, he has no intention of recognizing any expanded authority for Bosnia's central government.)

Asked bluntly in one interview whether she believed that it was possible to create a multiethnic Bosnia, Plavsic pondered: "Hmm. Is it possible? I do not think it is. It is not. Because something like that is not possible according to the Dayton agreement either. Bosnia according to the Dayton agreement is a state, but we do not even know what kind of state—a union [of states] or a republic. . . I can only say this; the Dayton agreement is a given framework which one cannot abandon." Plavsic's cautious comments undoubtedly are grounded in a number of factors, including her own evolving political beliefs, Dayton's ambiguities as a state building model, and the general uncertainty about Bosnia's future. Her remarks also illustrate the fact that in early 1998—with a large and powerful foreign military and civilian presence in the country—most prudent citizens and leaders of Bosnia have no alternative but to grope forward with Dayton's implementation.

For the moment, the United States and the international community have offered Bosnia a lease on life, a respite from violence, and a schema for future development. But the long-term survival of Bosnia in its Dayton configuration, is still very much in doubt. Political cultures can sometimes change quickly, but in the current contest between NATO proclaimed democratic norms on the one side, and rival Balkan nationalist ideologies on the other, it is too early to declare a winner. ■

"In economic, diplomatic, and even political terms, Slovenia has experienced a relatively smooth transition. But Slovenia's path is not free of snares and obstacles, including a surge in xenophobic intolerance."

The Slovenian Success Story

SABRINA P. RAMET

Slovenia is both the smallest and the least populous of Eastern Europe's postcommunist states. Yet it is, by certain measures, the region's most striking success story. While the Czech Republic, Poland, and Hungary have proceeded much more quickly with privatization (with the Czech Republic and Hungary also setting impressive rates of growth), no other state in the region can rival Slovenia's 1997 per capita GDP of \$11,200. Indeed, Slovenes enjoy a higher per capita income than residents of Greece or Portugal.

Slovenia has also been welcomed into a host of international organizations since its secession from Yugoslavia in 1991, becoming a full member of the Conference on Security and Cooperation in Europe (now the Organization for Security and Cooperation in Europe) in March 1992, a member of the UN in May 1992, a full member of the Council of Europe in May 1993, and a signatory to the European Free Trade Association in February 1995. And while Slovenian officials were disappointed to learn that their country would not be included among the first new Eastern European members of NATO, Ljubljana could celebrate the signing of a long-delayed agreement of association with the European Union (EU) in June 1996, with the expectation of eventual full membership.

It is thus neither in the economic nor in the diplomatic sphere that Slovenia has faced its greatest challenges. Although Slovenes made a promising start with the passage of an impressively liberal constitution, the stability of Slovenia's fledgling multiparty system has been put to the test by the populist maneuverings of Janez Jansa and his Social Democratic Party. Moreover, despite Slovenia's strides in institution building and in conducting

free and fair elections, and despite the impressive growth of independent civic initiatives in Ljubljana, it may take years for Slovenian citizens to completely adapt to the new system.

REACHING OUT ECONOMICALLY. . .

With the collapse of Yugoslavia in 1991, Slovenia lost 70 percent of its markets. This threw the Slovenian economy into disarray, resulting in a 23 percent decline in the Slovenian GDP between 1987 and 1992. Slovenia began to reverse this decline in 1993, when a small increase in GDP was recorded. Since 1994, GDP growth has remained above 3 percent, and in 1998 it is expected to be 5 percent. Meanwhile, inflation, which had raged at 1,306 percent in 1989 and still stood at 201 percent in 1992, was cut to 32 percent in 1993 and to a mere 9 percent by 1995; it is projected to dip to 7.5 percent in 1998.

Finding new markets was pivotal in restoring health to the Slovenian economy. As of late 1997, some 70 percent of Slovenia's exports were earmarked for the EU; half of this went to Germany, Austria, and Italy. Germany alone accounted for 26 percent of Slovenia's total trade in 1996, followed in importance by Italy, France, Croatia, and Austria. Although foreign investment amounted to only \$2 billion as of November 1997, foreign-controlled companies employ 6 percent of the labor force; on a per capita basis, foreign investment is higher in Slovenia than in any other Central or Eastern European country.

Privatization has, of course, figured in Slovenia's economic recovery plans, but it has lagged behind economic recovery as a whole. A series of controversies concerning issues of restitution, compensation, and distribution contributed to the delay; between early 1991 and mid-1992, the government considered four successive privatization schemes, failing in each case to reach an agreement. Only in

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November 1992 did the Slovenian National Assembly reach a preliminary agreement on privatization, which began, rather sluggishly, in 1994. As late as June 1995, only 200 of the 1,500 enterprises then scheduled for privatization had been transferred to private hands. Under the scheme, citizens were given vouchers ranging in value from 100,000 tolar (\$645) for those under 18 years of age to 400,000 for those age 48 or older. The pace of the program picked up in 1996, and by February 1997 some 1,347 enterprises had been privatized. With the addition of approximately 700 enterprises to the privatization list, some 906 awaited privatization at that stage.

Privatization has been accompanied by an increase in crime and corruption. As early as January 1993, the Ljubljana daily *Delo* reported that the Italian mafia was infiltrating Slovenia. Specific cases of corruption have included a financial scandal involving nearly 2 billion tolar (\$12.9 million), embezzlement, and transfers of weapons to the Bosnian army in defiance of a UN ban.

.. AND POLITICALLY

In the diplomatic sphere, Slovenia has, as noted, achieved all its core goals except membership in NATO—and that will most likely come soon enough. Although there were issues to be clarified with all four of Slovenia's neighbors, it was with Italy and Croatia that Slovenia experienced the most complications. With Hungary, an agreement on the mutual protection of the reciprocal Slovene and Hungarian minorities was signed in November 1992. The Slovenian government has also signed economic agreements with Hungary and Austria, and entered into a defense agreement with Austria; negotiations with Austria on reciprocal minorities continue.

Italy, on the other hand, unilaterally held up Slovenia's adhesion to the EU, arguing that the collapse of the Socialist Federated Republic of Yugoslavia had rendered the 1975 Treaty of Osimo a dead letter, and that Italy was therefore entitled to reopen the question of the post-1945 confiscation, by Yugoslav communists, of homes belonging to Italians living in territories assigned to the then Yugoslav Socialist Republic of Slovenia. Rome demanded that the homes be returned to their original Italian owners. Ljubljana countered that Rome had relinquished any such claims at Osimo in 1975 and maintained that the treaty was still valid.

Relations worsened in 1994, after Silvio Berlusconi became prime minister of Italy. His cabinet included neofascists, who enjoyed particular clout in Italy's foreign relations. Inevitably, hints of irredentism began to appear in Italian statements concerning this issue. Only with the collapse of the Berlusconi government in the fall of 1994 did relations between the two countries take a turn for the better. Slovenian Foreign Minister Zoran Thaler made overtures to the new Italian government, and by March of the following year, Italian Foreign Minister Susanna Agnelli announced that Rome was prepared to drop its veto against Slovenian membership in the EU.

Slovenia was required to amend its constitution to permit foreigners to purchase real estate in the country. This change was not only a largely nominal concession to Italy, but also a precondition for membership in the EU. On the strength of Slovenia's commitment to amend its constitution (which it did in July 1997), Slovenia and the European Union signed an agreement of association on June 10, 1996. As a token of goodwill, Italian Prime Minister Romano Prodi visited Slovenia in March 1997 and voiced his strong support for the inclusion of Slovenia in the first round of expansion of both the EU and NATO.

Relations with Croatia have centered on issues stemming from the disassociation of these two republics from socialist Yugoslavia. Chief among these were disputes concerning the border, access to the sea, debts associated with the closed Zagreb branch of Ljubljanska Banka, and the legal status of the nuclear power plant in Krsko.

In February 1993, the Slovenian government protested timber harvests by a Croatian company in a border area claimed by Slovenia. Croatia protested Slovenia's juridical "annexation" of three villages in the municipality of Piran in October 1994. This latter dispute proved to be a major embarrassment for Slovenian Foreign Minister Lojze Peterle, who resigned his office the day after the Croatian protest, admitting that the move had been a mistake.

The Slovenian-Croatian dispute over territorial waters stems from the location of Slovenia's port of Koper, which is situated in a cul-de-sac, with extrusions of Italian and Croatian land establishing Italian and Croatian claims to the surrounding waters. Slovenian fishing and merchant vessels needed some agreement to lift them out of the legal grey area into which they were pitched by the breakup

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of socialist Yugoslavia. Between 1992 and 1994, there were recurrent fishing "incidents" in the northern Adriatic. But in the summer of 1995 patient negotiations between the two governments began to produce results, and Slovenian Prime Minister Janez Drnovsek optimistically declared that the problems between the two former republics were "almost solved." "Almost solved" also referred to the Krsko nuclear plant, built with Slovenian and Croatian joint financing for the benefit of both republics but scheduled by Slovenian authorities for closure in the foreseeable future.

In April 1997, the Croatian and Slovenian foreign ministers, Mate Granic and Zoran Thaler, signed agreements on national insurance, border traffic, and economic cooperation, having already established a free trade zone in 1992. At the same meeting, the two sides agreed to amend an accord on the suspension of visa requirements and initialed an agreement on the protection and promotion of investments. They also announced that they were approaching a finalization of agreements relating to other open questions, including the status of the outstanding debts of the Zagreb branch of Ljubljanska Banka and the border.

THE PATH TO INDEPENDENCE

Slovenia began to lay the foundation for independence as early as 1989, when a series of amendments to the republic's constitution was passed. These amendments provided that only Slovenian authorities could declare a state of emergency within the territory of the republic or order troop movements within its borders. The amendment package also underlined Slovenian sovereignty, thereby establishing Ljubljana as the ultimate source of authority within Slovenia. On December 27, 1989, the Slovenian parliament passed new laws on elections and political association, effectively restoring political pluralism in the republic. Multiparty elections were scheduled for April 1990.

A second round of amendments began in March 1990, dropping "Socialist" from the official name of the republic and formally abolishing the Communist Party monopoly. A third round of constitutional changes in October further extended the autonomy of the Republic of Slovenia. A final round of amend-

ments in 1991 included amendment 99, which provided a constitutional basis for full Slovenian sovereignty in both internal and foreign affairs, making explicit the claim to the primacy of Slovenian laws over federal laws. After Slovenia's declaration of "disassociation" on June 25, 1991, the Yugoslav army marched into Slovenia for a brief and largely pusillanimous series of engagements against the small (20,000-strong) Slovene defense force. In early July an agreement was reached on the withdrawal of federal troops from Slovenia, and by October the withdrawal was complete. Slovenian independence was now a fact, even if it took the Western diplomatic community another two months to reconcile itself to it.

In the meantime, the noncommunist coalition government that had been voted into office in April 1990 set to work drafting a new constitution. A constitutional commission was appointed to review foreign constitutions and to prepare a draft for parliamentary consideration; more than 100 experts, delegates from government institutions, and representatives of various civic groups took part in the drafting.

Unlike Croatia and Serbia, which have reconstructed themselves as "national states" of the Croats and Serbs, the Slovenian constitution declares that "Slovenia is a state of all its citizens," thus signaling the drafters' choice of a "citizens' state" model.¹ And although the constitution notes that the Slovenian state bases itself "on the permanent and inviolable right of the Slovene nation to self-determination," it also stipulates that legislation and emergency measures should "not cause inequality based only on race, national affiliation, sex, language, religion, political and other convictions, material state, birth, education, social status, or any other personal circumstances."

The constitution provides special protection for the Hungarian and Italian communities, which account for 0.4 and 0.2 percent, respectively, of Slovenia's overall population. Members of these two communities are allowed to use their native languages in official settings within local districts. The two communities are also guaranteed one deputy each in the National Assembly, where they enjoy a veto over legislative acts that would affect exclusively the rights and interests of the Hungarian or Italian community.

Two points aroused controversy in the drafting of the new constitution. The first related to abortion, on which there was a sharp left-right polarization. Parties of the left proved stronger and

¹For further discussion of these alternative models, see Sabrina P. Ramet, *Whose Democracy? Nationalism, Religion, and the Doctrine of Collective Rights in Post-1989 Eastern Europe* (Lanham, Md.: Rowman and Littlefield, 1997), chap. 3.

succeeded in writing into the constitution an explicit guarantee of the right to abortion, over protests from right-oriented parties and the Roman Catholic Church. The second point of controversy concerned the structure of parliament itself. Again, the line of division followed a left-right cleavage. Centrist and left-oriented parties generally favored a bicameral legislature, with the deputies of one chamber chosen through republic-wide elections and with the deputies of the other chamber elected at the local level. The centrist Green Party, together with the National Liberal Party (a right-oriented organization), preferred a unicameral legislature. Eventually, the parties settled on a compromise, establishing a 90-member National Assembly with exclusive legislative power, alongside an advisory body known as the Council of State, whose 40 members could ask the Assembly to reconsider certain legislative acts.

If one counts the Party of Democratic Renewal/Associated List, the Socialist Party, and the Liberal Democrats as "left-oriented" (that is, social democratic), the Green Party, Democratic Party, and Democratic Party of Pensioners (DEUS) as "centrist," and the Slovenian Peasant/People's Party, the Christian Democrats, and Janez Jansa's Social Democratic Party as "right-oriented," with Zmago Jelenc's highly nationalist Slovene National Party seen as ideologically mixed, then one may speak of a temporary setback for the right between 1990 and 1992, followed by a consolidation of right-wing strength between 1992 and 1996.

While left-oriented parties widened their advantage over the right between 1990 and 1992, garnering 37.1 percent of the vote in 1990 (against 32.7 percent for right-wing parties) and 39.8 percent of the vote in 1992 (versus 26.5 percent for the right), they were outpolled by parties of the right in local elections in 1994 as well as in republic-wide balloting in 1996. In that year, the People's Party, under the energetic leadership of Marjan Podobnik, rebounded to win 19.4 percent of the vote (after a poor showing of just 8.7 percent in 1992).

Even more strikingly, the mercurial Jansa, with his populist appeals, catapulted his misnamed Social Democratic Party from 3.3 percent in 1992 to 16.1 percent in 1996. Jansa's demagoguery, in

which he appeals to working-class resentment of privilege, comes with political ambitions that have been pursued irresponsibly and sometimes illegally. He has ordered the arrest and beating of a former security agent of the Ministry of Defense, transformed the security forces of that ministry into a private paramilitary force, tapped the telephones of journalists, used privileged information to intimidate and influence members of the judiciary, and smuggled weapons in contravention of Slovenia's own laws to Muslim forces in the Bosnian conflict.

Jansa has generally preferred to stay on the offensive. In April 1994, after being relieved of his duties as minister of defense on charges of endangering civilian rule as well as on charges related to the aforementioned transgressions, Jansa organized a

massive rally of some 5,000 people against corruption in downtown Ljubljana. Jansa also called into question the propriety of President Milan Kucan's fund-raising campaign, and, most recently, in December 1997, co-organized a meeting, together with Christian Democratic leader Lojze Peterle, to demand a tough lustration law that, if passed, would force President Kucan,

Prime Minister Drnovsek, and many other former communists from office.

MINORITY QUESTIONS

Repluralization has not only produced a proliferation of registered political parties (from 50 in 1990 to 124 by 1994) but has also opened the doors to rising ethnic chauvinism, following the pattern established elsewhere in Central and Eastern Europe.² Repercussions from the military and propaganda war being waged between Croats, Serbs, and Muslims no doubt contributed to the rise in xenophobia, as did the presence of more than 47,000 refugees from Bosnia during the war years. As early as 1993, the Zagreb daily *Vecernji list* reported that xenophobia in Slovenia was increasingly taking violent forms, while Helsinki Monitor, the well-known independent human rights organization, reported in 1995 that most human rights violations committed in Slovenia involved citizens of non-Slovene ethnicity.

In 1986, 12.4 percent of Slovenes opposed the immigration of non-Slovenes into the republic; in 1993, 28.5 percent expressed a similar sentiment. In the latter year, 93 percent of respondents also opposed allowing immigrants to form their own political organizations. In the same poll, 20 percent

Increased support for democracy has not been associated with increased support for tolerance.

²Mitja Zagar, "The Republic of Slovenia: Is a Success Story Possible?" (Ljubljana, 1997, manuscript).

of respondents expressed anti-Semitic sentiments, even though there were only 36 Jews living in all of Slovenia.³ Some 43 percent of respondents felt that people should "take things into their own hands" if the state could not or would not provide adequate protection for ethnic Slovenes. More ominously, about half of young Slovenes told pollsters they favored the introduction of "ethnic cleansing" in Slovenia.

The new xenophobia has been manifested in other ways. In November 1993 the Assembly adopted a law tightening the criteria for Slovene citizenship. In 1994 certain parliamentarians spoke in favor of annexation of portions of Croatian Istria. Or again, in 1995, right-wing parties collected some 20,000 signatures demanding a referendum on depriving ethnic non-Slovenes of Slovenian citizenship.

Opinion polls have also shown overwhelming support among Slovenes for multiparty democracy as well as for emulation of West European political models.⁴ But increased support for democracy has not been associated with increased support for tolerance, the pivotal prerequisite for liberal democracy. Lack of respect for the principle of tolerance has been closely correlated with low regard for any concept of equality. In a 1991 poll, only 52 percent of respondents thought social equality was entailed in the democratic project, while only 76 percent saw freedom as indispensable to democracy. In that same survey, a mere 40 percent thought that guaranteeing equal rights for women was strongly correlated with democracy. In other words, only a minority of Slovenes hold views associated with the classical liberalism of John Locke, Immanuel Kant, James Madison, and John Stuart Mill.

POLITICS AT WORK

After the fall of Lojze Peterle, postcommunist Slovenia's first noncommunist prime minister, in the spring of 1992, Janez Drnovsek took the helm, consolidating the political primacy of his Liberal Democratic Party. That primacy was to endure for four years. But in November 1996, a coalition of three right-wing parties (the People's Party, the Christian Democrats, and the Social Democrats)

took 45 percent of the popular vote, winning 45 of the 90 seats in the Assembly. These right-wing parties had signed a compact called the Slovene Spring and celebrated the tally, feeling certain that they would eventually be called on to form a new government. But since the Liberal Democrats had remained the single biggest vote-getter, President Kucan, adhering to established procedures, asked Drnovsek to attempt to form a government. Given the requirement that the prime minister's proposed cabinet receive the approval of at least 46 of the Assembly's deputies, Drnovsek had to hope either for a defector from one of the Slovene Spring parties or for one of these parties to break ranks. Since one of the Slovene Spring deputies had supported Drnovsek in his preliminary confirmation in the Assembly, there was some basis for the Liberal Democrats' belief that the former would occur.

As Drnovsek began to consider his options, Marjan Podobnik, head of the Slovenian People's Party and the apparent prime ministerial candidate of the Slovene Spring coalition, urged Drnovsek to put together a "government of national unity," involving all parties with representation in the parliament. Not surprisingly, Drnovsek's efforts in this direction failed. Drnovsek then tried to put together a government including the Associated List, the Democratic Party of Pensioners, and the Slovenian National Party in coalition with his own Liberal Democrats. This coalition failed to obtain parliamentary sanction when the defector defected back.

The Slovene Spring parties began to suggest that Kucan turn to Podobnik to form a government, while some analysts predicted that new elections would be called. By this point, rumors were circulating that Drnovsek would seduce Podobnik into a deal. The two men negotiated in secrecy. Finally, on February 16, the announcement came that Podobnik's People's Party had abandoned its Slovene Spring partners and entered into a coalition with the Liberal Democrats and the Democratic Party of Pensioners. The coalition obtained the support of 52 deputies; Drnovsek stayed on as prime minister, while Podobnik became deputy prime minister. The system had weathered its first political crisis.

The new government began its work with a public approval rating of 64 percent (as of May 1997). Moreover, as of late June 1997, a poll showed that the Liberal Democrats had augmented their popular support, while all other parties were experiencing a decline. This trend was confirmed in elections held on November 23, when Kucan was elected on the first ballot, in a field of eight contenders. Kucan

³Rudolf M. Rizman, "Radical Right Politics in Slovenia," in Sabrina P. Ramet, ed., *The Radical Right in Eastern Europe since 1989* (University Park: The Pennsylvania State University Press, forthcoming).

⁴See Danica Fink-Hafner, "Development of a Party System," in Danica Fink-Hafner and John R. Robbitts, eds., *Making a New Nation: The Formation of Slovenia* (Aldershot, England: Dartmouth Publishing Co., 1997).

garnered 55 percent of the vote, far ahead of the 18 percent obtained by Janez Podobnik, Marjan's brother and speaker of the Assembly.

THE DANGER OF ILLIBERAL DEMOCRACY

Slovenia illustrates the challenges a society in transition from authoritarianism to democracy faces under optimal conditions. Unlike Croatia, Bosnia, and Serbia, Slovenia has been spared the onslaught of war. Unlike Bulgaria and Albania, Slovenia has escaped economic chaos fueling mass protests. Unlike Poland, Hungary, and Slovakia, Slovenia has not witnessed intense struggles for power between the executive and legislative branches of government. Unlike Poland, Macedonia, Serbia, Croatia, Bosnia, Bulgaria, and pre-Constantinescu Romania, Slovenia has not been afflicted with endemic corruption. Unlike those in Serbia, Bosnia, Bulgaria, Romania, and Albania, Slovenian authorities have never been accused of corrupting the election process. And unlike Macedonia, Slovakia, and Serbia, Slovenia has not had to deal with extended periods of diplomatic isolation or economic embargo. In fact, in economic, diplomatic, and even political terms, Slovenia has experienced a relatively smooth transition.

But Slovenia's path is not free of snares and obstacles, including a surge in xenophobic intoler-

ance, extending (among young Slovenes) also toward lesbians, gays, the handicapped, and others who are "different." The Catholic Church has made its own contribution to illiberalism in Slovenia, promoting the idea that only a Catholic can be a "real" Slovene. Perhaps most important, Janez Jansa has emerged as the illiberal champion of "populist democracy," in the process threatening the liberal values many Slovenes want to protect.

Democracy can exist without the values of tolerance, equality, and respect for individual differences and preferences. But an illiberal democracy is a democracy without freedom—rule by the people, but in a tyrannical form. It is worth recalling Mill's caution in *On Liberty*, that "when society is itself the tyrant—society collectively, over the separate individuals who compose it—its means of tyrannising are not restricted to the acts which it may do by the hands of its political functionaries. Society can and does execute its own mandates: and if it issues wrong mandates instead of right, or any mandates at all in things with which it ought not to meddle, it practises a social tyranny more formidable than many kinds of political oppression, since, though not usually upheld by such extreme penalties, it leaves fewer means of escape, penetrating much more deeply into the details of life, and enslaving the soul itself." ■

"Recent events in both Macedonia and Yugoslavia point to the possibility of a regional interethnic crisis in the offing. Should there be trouble, it could bring the reality of Balkan war to Macedonia. . . . The West must be prepared to take action if required, and with a deliberate and forceful stride, not a shuffle as it did in Bosnia."

Destiny on Hold: Macedonia and the Dangers of Ethnic Discord

DUNCAN PERRY

To many, Macedonia refers not only to the nascent state whose capital is Skopje, but also to a region that today encompasses the northern province of Greece, a slice of southwestern Bulgaria, and a sliver of eastern Albania.¹ In the nineteenth century, Greece, Bulgaria, and Serbia competed for the national allegiance of the Slavs in the region and each claimed much of geographic Macedonia as its birthright. Bulgarian nationalists thus see Macedonia as Bulgaria irredenta; Serbian nationalists contend that Macedonia is really Southern Serbia. Both groups assert that today's ethnic Macedonians belong to their respective nationalities. Greek nationalists, while not claiming territory or ethnic affinity, decry their northern neighbor's use of Macedonia (and its derivatives) in reference to the new country and its people.

If some nationalists in the Balkans were to have their way, the Republic of Macedonia might be torn into pieces. But cooler heads are in charge. They realize that keeping this small country intact is far preferable to pitting neighboring Albania, Bulgaria, Greece, and the truncated Yugoslavia (made up of Serbia and Montenegro) against each other over a division of Macedonian spoils. However, because the new Yugoslavia has been unpredictable during

the postcommunist era, the United Nations has taken no chances. In 1993 it signaled Belgrade to keep its hands off Macedonia by stationing an international observer force on Macedonia's border with Serbia.

Recent events in both Macedonia and Yugoslavia point to the possibility of a regional interethnic crisis in the offing. Should there be trouble, it could bring the reality of Balkan war to Macedonia and its neighbors.

GOOD NEIGHBORS?

Bulgaria was the first country to diplomatically recognize Macedonia in 1991. Turkey was close behind—although few other states followed because of Greece's feud with Macedonia. Athens demanded that the Republic of Macedonia find another name, one that did not include the word Macedonia, a name claimed to be exclusively Greek property dating back to the empire of Alexander the Great. Greece wanted Macedonia to select a new flag as well. The flag that Macedonia's parliament chose, something of a "thumb in the eye of Greece," bore the image of a sixteen-pointed Star of Vergina held by Greeks to be an ancient and proprietary national emblem, predating by hundreds of years the arrival of the Slav ancestors of today's Macedonians in the Balkans. Finally, the Macedonian constitution contained references to protecting conationals living outside the new republic. Athens took this to mean that Macedonia had territorial designs on northern Greece's Macedonia region, the home of a minority people referred to by Greece as slavophone Greeks but who possess, in fact, a Macedonian ethnic identity. Athens demanded that Macedonia change the offending articles of the constitution.

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Since Macedonia refused to relinquish its name or flag, or change its constitution after independence, Greece resorted to pressure tactics, imposing trade embargoes, first briefly in 1992 and then again for 18 months beginning in 1994, that denied landlocked Macedonia access to the Aegean Sea through the port of Thessaloniki in Greece. At the same time, Greece derailed Macedonia's initial attempts to join various international organizations, including the European Community and the UN, while leaning on its allies in NATO and the EC not to recognize Macedonia diplomatically. The UN went ahead and welcomed Macedonia into its membership in 1993, albeit as the Former Yugoslav Republic of Macedonia, a temporary name meant to partially mollify an irate Greece. After much hesitation, many Western governments also decided to disregard Greek sensibilities and recognized Macedonia in 1994.

To demonstrate its good citizenship, Macedonia enforced the 1992 UN-imposed trade sanctions against the rump Yugoslavia, Macedonia's chief market. Denied access, first to its seaport in Greece, then to its primary trading partner, and receiving little outside assistance, Macedonia was forced to survive as best it could. Blackmarketeering became the norm and embargo-busting was common.

Trade with Yugoslavia has recently resumed, and Macedonia's joust with Greece now seems all but over. Athens lifted its embargo in 1995, and the Greek business sector began investing in Macedonia. In deference to Greek demands, Macedonia has changed its flag and amended its constitution—though it is improbable that Skopje will agree to a name change. Such a concession would undermine the national identity that Macedonians have struggled for half a century to build. Under the current Greek government, and with the support of the Greek business community, the significance of the name controversy has diminished. Far more critical and threatening problems now confront the central Balkans.

MULTIETHNIC MACEDONIA

Macedonia is the epitome of a multiethnic state. Its population of 2 million includes ethnic Macedonians, who make up about 66.5 percent of the people; Albanians (22.9 percent); Turks (4 percent); Roma (2.3 percent); Serbs (2 percent); and Vlachs (.004 percent); along with other small groups, notably ethnic Macedonian Muslims (known as Torbeshi), Croats, Bosnians, and Bulgarians. Albanian leaders protest that the count posited for their

nationality is too low and argue that Albanians comprise between 30 and 40 percent of the population, a claim the government dismisses as far too high.

Multiethnic though Macedonia may be, it is not a melting pot. The country's various peoples tend to live in closed, separate communities. Members of the diverse ethnic groups generally take pride in belonging to their ethnos and want to preserve its identity and attributes, something expressly provided for in the Macedonian constitution.

Macedonia's record in dealing with its minorities is uneven. While the government has been lauded for its treatment of Vlachs by the European Union, there have been conflicts with the small, nationalistic Serb minority that speaks with the force of Belgrade behind it. The greatest point of friction—which has become a threat to Macedonian security and stability—springs from tensions between ethnic Macedonians and Macedonian Albanians.

The ethnic Macedonians are Slavs who are overwhelmingly Orthodox Christian. The Albanians are non-Slavic, and overwhelmingly Muslim. Both use religion, along with language, history, and culture, to differentiate themselves from others. Macedonia's Albanians are chiefly concentrated in a crescent running along Macedonia's borders with the Yugoslav province of Kosovo, the intellectual heartland of Macedonian Albanians, and with Albania, the symbolic homeland. Albanians traditionally have lived in largely homogeneous ethnic clusters because of historical, religious, and cultural considerations. They feel alienated from Macedonian society, which reinforces their desire to live in segregated communities. At the same time, ethnic Macedonians and other non-Muslims dispersed throughout the country reportedly feel increasingly unwelcome in predominantly Albanian communities. All this fuels ethnic Macedonians' fears that Albanians want to form, at Macedonia's territorial expense, a Greater Albanian state—one that would include Albania, Kosovo, and western Macedonia.

ECONOMIC DIVISIONS. . .

It has been seven years since Macedonia gained independence. Despite its many travails, the country has acquired more than a veneer of civil society. It is a constitutional democracy in which citizens vote in multiparty elections. Freedom of religion is guaranteed by the country's 1992 constitution and there is a free and multiethnic press. Politically there is a strong government, though led by a single party, with an opposition that has not been sufficiently strong or unified to unseat it.

Despite the financial assistance from international organizations and individual countries that began to arrive in 1993, Macedonia has not managed to gain its economic balance. GDP has declined about 50 percent since 1988; for 1997 it is expected to have grown by only 1.5 percent over 1996, far from the 5 percent predicted by government analysts. The gray or informal economy is estimated to account for as much as 35 percent of the GDP. While inflation has been all but halted—it is running at about 5 percent—unemployment stands at 30 percent, the highest in Europe, though one suspects that it may be over 50 percent for the Albanian population. The government initiated a program on January 1, 1998, to boost employment, allowing wages for the newly employed to be untaxed for two years. This program is expected to create some 50,000 new jobs.

Malfeasance and corruption plague the country. Most recently, a scandal involving the TAT savings institution resulted in a major fraud case in which government ministers and others have been implicated. Moreover, confusion reigns among workers as rigorous new management methods clash with the familiar and inefficient self-management approach that governed the economy when Macedonia was part of the Socialist Federal Republic of Yugoslavia.

While most of the country's population has been integrated into the economy, Albanians have not, resulting in a second economy based in part on capital from the Albanian diaspora. As a result, most Albanians have never been made stakeholders in the economic well-being of Macedonia. They tend to maintain vested interests only in their own land and property, and in that of their community. Considerations of loyalty and devotion to the state are based on pragmatism: Macedonia affords relatively greater stability and security than neighboring Kosovo or Albania.

... AND ETHNIC DIVISIONS

At the outset of the Republic of Macedonia's independence, it appeared that there would be comity between government and Albanian leaders on ethnic rights issues. Talk of reform was rife and Albanians were included in government cabinets. It seemed as though a new beginning were at hand. But when Albanian leaders pressed for a revision of the constitution to make Albanians a constituent nationality, with the right to use Albanian as an official state language, the right to fly the Albanian flag

alongside that of the Macedonian flag, and perhaps the division of the country into ethnic cantons, the predominantly ethnic Macedonian government refused to negotiate. Both sides dug in and neither was prepared to budge from its position.

Albanians were never well integrated into socialist Yugoslavia, let alone Macedonia. Under Josip Broz Tito, leader of the now defunct socialist Yugoslav state, the overwhelmingly Albanian province of Kosovo was not accorded the status of a republic, but Kosovars were allowed their own flag; the Albanian language was recognized; Albanian culture was promoted; and Albanian-language educational institutions were established, notably a university in Pristina. Indeed, Pristina became the intellectual and cultural center for Macedonia's Albanians.

In 1981, the year after Tito died, Kosovo riots in support of creating a Greater Albanian state stimulated parallel, if smaller, manifestations in Macedonia. These resulted in the swift and forceful silencing of Macedonia's Albanian activists. Subsequently, the rights of Albanians throughout Yugoslavia were circumscribed. Not integrated ethnically into the Yugoslav state, Albanians felt like second-class citizens whose rights were subject to abrogation at any time the authorities chose. Albanian nationalism—and separatism—became an undercurrent.

After Macedonia's independence in 1991, Albanians in this former Yugoslav republic did not feel that they were equal citizens with the ethnic Macedonian majority in the new land. Constitutionally they were relegated to the status of a "nationality," a politically correct term in Macedonian parlance for minority. Not surprisingly, many Albanians believe they have been wronged by a state that they say seems to wish them away. However, Macedonia's constitution accords all citizens broad liberties and opportunities for political action. Albanians lost no time in forming effective, ethnically based political parties to press their cause.

Obtaining accurate information about the plight, aspirations, and wishes of the average Macedonian Albanian is difficult. The press (Albanian or Macedonian) does not generally offer a balanced picture, and Albanians themselves are typically unwilling to discuss such matters out of fear of retribution. Albanian politicians argue that their constituents only want to have what ethnic Macedonians have. They want to govern themselves and have the right to display what to them is a cultural symbol, the flag

*Macedonia's
future is in
jeopardy.*

of Albania, and, of course, the right to use their mother tongue as the lingua franca in state commerce. Albanians also seek the right to educate their children at all levels with Albanian as the language of instruction, and they want to live without fear of police intimidation and violence. Albanians believe that Macedonians answer to no one, that the state can do whatever it wants, the constitution notwithstanding, and that Albanians are systematically discriminated against. In short, Albanians feel vulnerable and victimized by the government, which, after all, Albanians note, has the state security and military agencies at its disposal.

Such talk annoys and frightens ethnic Macedonians, to whom the preservation of their hard-won status and country are of paramount concern. They

believe that Albanians, who make up less than one-quarter of the population, are trying to manipulate the system to grant themselves special treatment. Macedonians deny Albanian claims of unprovoked violence and arbitrary or unlawful treatment as anti-Macedonian and ascribe them to politically motivated propaganda meant to win external sympathy and internal loyalty. They point to the discovery of the secret All Albanian Army in 1995, an apparently terrorist group made up of Albanians in Macedonia that sought to infiltrate the government and the military to overthrow the state. It was uncovered before it committed any acts of violence, and its members were jailed.

No other indigenous organization has since surfaced, although the Kosovo Liberation Army (KLA)

Kosovo

Regarded by Serbs as their national Golgotha, Kosovo was the scene of the medieval Serbian empire's defeat at the hands of Ottoman forces in 1389, costing Serbia the flower of its nobility. Kosovo is also the site of Serbia's most cherished religious shrines. It is thus integral to Serbian national identity. Paradoxically, more than 90 percent of Kosovo's population is ethnically Albanian, not Serbian. Still, the Serbian authorities are unwilling to accord Kosovar Albanians equal rights with the minority Serbian population. They are also unwilling to grant Kosovo republic status within the new Yugoslav federation, even though the number of Albanians in Kosovo is greater than the population of Yugoslavia's other republic, Montenegro.

Kosovo received the status of an autonomous region in socialist Yugoslavia in 1974 and, in effect, gained the rights of a republic within that federation. This status was revoked by Belgrade in 1989, since then police intimidation and violence have pervaded the lives of Kosovar Albanians, who are viewed as unwanted squatters on territory that Belgrade wants to

resettle with ethnic Serbs. Albanians have responded by creating a Kosovar Albanian community and a shadow government that functions largely outside the state's social and political structures. Recently, demonstrations and confrontations with the police over Yugoslavia's unwillingness to reopen schools it has closed have become common. Yugoslav authorities have responded with force. As tensions have escalated, Kosovar Albanians have become more strident and even violent.

Until 1996, resistance in Kosovo was passive. That year the elusive, seemingly well-organized and probably small Kosovo Liberation Army (KLA) appeared and began killing Serbians, largely members of the constabulary. Recent violence in the province seems to indicate that the odds may have changed somewhat in favor of the Kosovar Albanians, made possible at least in part by the influx of illegal weapons from Albania (and perhaps elsewhere).

Meanwhile, Ibrahim Rugova, the long-time moderate leader of the Democratic League of Kosovo and president of the unsanctioned Kosovo Albanian shadow government that was elected in 1991, is

losing his grip on his constituency to more radical-minded people like Adem Demaqi, leader of the Movement for the Unification of All Albanians.

While the West admonishes Rugova that he should not demand even republic status for Kosovo but rather equality for Kosovar Albanians within Yugoslavia, pressure in Kosovo mounts to declare full independence. Many do not want to live within a Yugoslav state, federated or not; they want to live in an all-Albanian land. In January 1998, the KLA declared that it has launched an armed struggle for the unification of Kosovo and Albania.

For Yugoslavia's ruthless and authoritarian president, Slobodan Milosevic, giving in to Kosovar Albanian demands for independence or even autonomy would be risky. It would cost him dearly among his constituency, although not giving in could cost his country further penalties imposed by the West and might well lead to serious interethnic violence. Either way, Serbia's troubles in Kosovo spell danger for its southern neighbor, Macedonia.

D. P.

has claimed responsibility for the bombing of a government building in Gostivar in 1997, and for two more incidents in Prilep and Kumanovo earlier this year. Whether the two groups are linked (a possibility) or not, ethnic Macedonians are unlikely to distinguish between them. Such violence frightens people, as it is meant to do, and if it intensifies significantly, could lead to the imposition of martial law measures against Albanians. This of course would deepen the animosity and distrust between ethnic Macedonians and Albanians and contribute to reaching the terrorists' goals. For now the authorities are playing down the incidents.

Ethnic Macedonians say that all citizens of Macedonia are Macedonians. As such they are expected to learn and use the state language. While there is a willingness to designate Albanian an official language of government in areas where Albanians are the majority—indeed, this is enshrined in the constitution—there is certainly not a reason to make Albanian a language equal in status to the state language, Macedonian. Further, there can be but one state flag and certainly no flag of another state should compete for the allegiance of Macedonian citizens. This is a thorny issue. The flag of Albania bears the symbol of the fifteenth-century Albanian hero Skenderbeg, who fought the Ottomans to a standoff, keeping them from occupying Albania. Albanians argue that they want to fly not the flag of the Albanian state, but the flag of the Albanian nation, a symbol with a 500-year lineage. Ethnic Macedonians do not see it that way.

For Albanians, education is a critical matter. They want their children to have the opportunity to be schooled in Albanian and to have open access to higher education. The authorities state that this access already exists, a claim hotly disputed by Albanians who argue that village schools have been closed and that their children cannot gain admission to the university. Officials retort that such allegations are absurd. Albanians, they say, simply do not apply themselves.

Symbolic of the increasing divisiveness in Macedonia was the founding by Albanians of a university in Tetovo in 1995, against the express orders of a government that considered it illegal. The authorities at first closed the university down, although since then they have found it prudent to back away from interfering with this Albanian cause célèbre. The university, which is funded by the Albanian diaspora as well as a tithe on Albanians within Macedonia, symbolizes the empowerment of Albanians and gives them hope for change.

To ethnic Macedonians, it is a sign of Albanian defiance.

Kiro Gligorov, the 80-year-old president of Macedonia who is ordinarily above nationalist rhetoric, has grown impatient with Albanian pressure concerning the university and in 1997 said Albanians seeking education in their own language may go to Tirana, the capital of Albania. He was clearly expressing the frustration of many ethnic Macedonians, angry with what they perceive as the incessant demands and threats of Albanians.

Both sides seem to be becoming more divided over these issues. Ethnic Macedonian students took to the streets in 1997 to protest curricular changes in the Pedagogical University where the government has mandated instruction in Albanian for Albanian teachers. And the Macedonian Orthodox Church is demanding the introduction of Christian religious instruction in schools.

NO LEADERSHIP TO CLING TO

Perhaps matters would be less stressful if the country were not in an economic shambles. Scandals, cronyism, and favoritism have become a staple in the newspapers and on television. Eight ministers were replaced in a 1997 government shake-up intended to put distance between the prime minister and these affairs as the 1998 national elections approached. The Macedonian people, for their part, are fed up with the corruption and have little faith in the government. Conditions leave them feeling vulnerable and in search of scapegoats, which in turn magnifies popular fears and promotes nationalism on all fronts.

While Prime Minister Branko Crvenkovski, appointed in 1992, has failed to deliver on campaign promises of reform, the party he represents, the Social Democratic Union of Macedonia (SDUM), remains the nation's largest. Organized opposition has proved ineffective in challenging the SDUM, since no leader with sufficient national stature has emerged. The two parties most likely to seriously challenge the government are the Internal Macedonian Revolutionary Organization—Democratic Party of Macedonian National Unity (IMRO-DPMNU), the largest nationalist Macedonian party, led by Ljubco Georgievski, and the Liberal-Democratic Party (made up of the recently merged Democratic and Liberal Parties), representing a cross section of the ethnic Macedonian population and headed by Stoyan Andov and Petar Gosev. Both have been significant annoyances to the Crvenkovski government—through petition drives, demonstrations,

and other forms of pressure—but, so far, they have not been able to bring it down. Perhaps the growing problems between ethnic Macedonians and Macedonian Albanians will.

There has been little substantive cooperation among Albanian and Macedonian politicians. Wisely, the Crvenkovski government sought to work with the leading Albanian political party, the Party for Democratic Prosperity (PDP), from the beginning. But because it did not, or could not, deliver reform, the influence of PDP leaders, with whom Prime Minister Crvenkovski had allied himself, was significantly diminished among the Albanian electorate. The PDP adopted a more confrontational tone and has moved toward more radical positions in an effort to retain membership and a political presence. Abdurahman Aliti, the party's leader, still calls for working through the democratic mechanisms of state, but he seems to have been eclipsed by less flexible leaders who threaten dire consequences if their demands are not met.

The new leaders formed a breakaway party in 1995, the PDP-Albania (PDP-A). In 1997, PDP-A chiefs Arben Xaferi and Menduh Thaci, both educated in Pristina, merged the PDP-A with the smaller Peoples' Democratic Party and created the Albanian Democratic Party (ADP). With significant ties to Kosovar leaders, the ADP appears to have adopted a no-compromise position on the basic issues of flag, language, education, and governance. The government sees the group's strategy as an attempt to destabilize the state with the expectation of gaining all demands and, ultimately, secession and the formation of a Greater Albania. Many Albanians regard these leaders as righteous defenders of legitimate Albanian demands. And they are gaining in popularity, as are protégés like Rufi Osmani, the newly elected mayor of Gostivar, and Alajdin Demiri, Tetovo's new mayor. In May 1997, Osmani fulfilled a campaign pledge by hoisting Albanian and Turkish flags over the Gostivar city hall. The act triggered a late-night raid in July by security forces to remove the flags. Two Albanians were killed and others jailed as a result of confrontations in Gostivar and Tetovo over flying non-Macedonian flags in public.

SECURITY THREATS: WHAT IF?

France, Germany, and the United States do not support a Greater Albania but demand that Albanians in Kosovo be accorded basic human rights within the political framework of Yugoslavia. With his political fortunes low at present, Yugoslav Pres-

ident Slobodan Milosevic may be tempted to make a stand in Kosovo, the site of his political ascendancy in 1989. This would be the first salvo, reopening the wars of Yugoslav secession and very likely widening the conflagration to Macedonia and possibly beyond. He also has the option of attempting to defuse the mounting crisis. A reconciliation of Serbia with Kosovo would gain Milosevic much materially, since the international sanctions in place would probably be eased if not lifted. Ever the pragmatist, Milosevic could see the wisdom in treating with Kosovar Albanian leader Ibrahim Rugova to obtain compromise, since a less tractable negotiating partner may be on the scene after the March 1998 elections. But he would need to act quickly; in a move opposed by the international community, plans are being laid by Kosovar Albanian leaders for a referendum on separation from Yugoslavia.

If conciliation fails and war breaks out in Kosovo—Serbians would call it a civil war, Kosovar Albanians a war for liberation—at least a small segment of Macedonia's Albanians would surely react. Some would join their Kosovar brethren, while others might try to start an armed conflict in Macedonia. This could lead to Yugoslav intervention in Macedonia to eradicate Macedonian Albanian links to Kosovo. Unless the Yugoslavs were invited in, this would violate Macedonian sovereignty, which the Macedonians have jealously guarded and which has been symbolically preserved by the 700 UN observer troops stationed in Macedonia. But this is a token contingent, and it is unlikely that an international force sufficient to protect or police Macedonia would be dispatched, thereby leaving Macedonians to fend for themselves and cut the best deal they could.

Although Macedonia seceded from Yugoslavia in 1991, and did so in part to keep the Macedonian nationality from being swallowed by the larger, more populous, and more powerful Serbian state to the north, fear might drive it to the lesser evil of collaboration, if not some form of union, if confronted by the threat of Albanian secession. Alternatively, if Macedonia were not willing to work with Yugoslavia, Skopje might find that Belgrade was promoting a destabilization campaign against Macedonia that could lead to an eventual carve up. No matter what the outcome of such a struggle, Serbia, with its population of more than 11 million, will survive. The same assurance cannot be accorded to Macedonia with its mere 2 million inhabitants.

Macedonians could thus face the double threat of internal rebellion, perhaps fomented only by a

small number of radicals, and intervention from the north. Skopje would have to calculate carefully how to respond to both. Imposing martial law, inviting Yugoslav forces into Macedonia, or taking other punitive measures against all Albanians for the acts of a few would drive a wedge between law-abiding Albanians and the state—read ethnic Macedonians. Joining with Yugoslavia could very well cost Macedonia its independence.

Albania's role in such a conflict is not clear. Quite likely, as with Macedonia, it would be powerless to stop its citizens from crossing the border to help Kosovar or Macedonian Albanians. Although the Albanian government officially opposes secessionist activities in both Kosovo and Macedonia, events could wash over the country and carry it on a wave of bloody and dangerous confrontation fed by the now nationalistic and obstructionist Sali Berisha, the opposition leader and former president of Albania. Should it appear that resolution cannot be found and that Macedonia could be dismembered, Bulgaria would be hard-pressed not to join the fray, perhaps to acquire a slice of the pie or maybe even to aid Macedonia.

Neither Greece nor Turkey favors a Macedonian breakup, but neither would probably intervene. Greece, however, might offer aid to its ally Serbia in the event of a blowup. Turkey, for its part, could be a peacemaker and is unlikely to take sides, although because its population is overwhelmingly Muslim it would have a hard time convincing the non-Muslim parties that it did not favor Albanians. In the end, effective mediation would have to come from outside the Balkans.

Macedonian Minister of Internal Affairs Tomislav Cokrevski has said that Albanian arms are being stockpiled in Macedonia, presumably both in preparation for a Kosovo revolt and for fighting in Macedonia. Although denied by Albanians, the allegations must be taken seriously. If true, they spell real danger as Macedonia's security forces might not be able to manage a national crisis. When Macedonia separated from Yugoslavia, the Yugoslav National Army was withdrawn and all heavy weaponry went with it. Macedonians believe that, given the armaments stolen from the arsenals of Albania, it is possible that Albanian militants, whether from Kosovo or Macedonia, could seriously challenge the legal Macedonian forces using sophisticated weapons. Macedonian Albanians, on the other hand, argue that this is absurd and that

they have no desire to fight, only the hope that they may live freely, peacefully, and prosperously on their land. Still, the rhetoric of some leaders is laced with threats of violence; now that the KLA has claimed responsibility for terrorist acts on Macedonian soil, extreme paranoia could set in.

IS THE MACEDONIAN STATE VIABLE?

Macedonia's future is in jeopardy. Reform has stalled because of lackluster leadership and government inaction. The country's political system is mired in scandals and corruption, with no political opposition strong enough to dislodge the regime. The state's economy is fragile, unemployment is high, and the security apparatus is weak. Many people are unsure of the future and are confused and frustrated. Moreover, the government perceives an Albanian threat to the country's stability.

Is there a threat? Not from the viewpoint of Macedonian Albanian landholders and shopkeepers. They have no interest in losing what they have, an argument decidedly against an armed struggle. Moreover, while most Albanians may harbor little love for ethnic Macedonians, they seem to possess even less for the notion of breaking up the state. Rather, looking to chaotic Albania and violent Kosovo, they appear to prefer the status quo while seeking change in evolutionary fashion. However, there is a radical core that seeks to stimulate fear and tension, thus widening the ethnic divide, putting Albanians and Macedonians at odds, and perhaps hoping to create a Greater Albania. This is what ethnic Macedonians fear.

Some Macedonians have argued that Albanians from Kosovo, possibly under the influence of the KLA, are responsible for the violence in Macedonia today. Certainly the stakes of Kosovar Albanians are different than those of the Macedonian Albanians. Kosovar Albanians, repressed by the Serbian authorities and living a furtive life, are desperate for change. Many may be willing to risk bloodshed, as the recent confrontations with the authorities over education seem to demonstrate, in order to have a state that affords them basic human rights. Albanians in Albania, who labored under more than 45 years of the strictest of all communist regimes, have different problems. They possess but the crassest sense of democracy and how it works and have turned their country into a lawless frontier. In contrast, Macedonian Albanians, who have had com-

Politicians talk at each other across ethnic lines, while most people are not talking to each other at all.

paratively prosperous lives, with relative freedom to conduct their affairs in Albanian communities, have had a better lot than their ethnic brethren to the north and west. As a result, there are at least three significantly different Albanian political and social cultures, a fact that not only makes each group distinct, but that also makes the goals of each group different. This is not lost on Albanians in Macedonia, who seem to know that if an all-Albanian state should come to pass, it very well might resemble the feuding and self-destructive models embraced by the fragmented and fractured Kurds or Afghans. In such a model, they would lose all.

Support for the notion of fomenting revolt or creating a Greater Albania among Macedonian Albanians thus seems scant, although the average ethnic Macedonian may believe it widespread. The ethnic Macedonians want to preserve their state, but so too do the Albanians. However, both sides appear to misinterpret one another on the most basic issues. Politicians talk at each other across ethnic lines, while most people are not talking to each other at all. Neither group seems to understand the other well, and where there is little understanding there is little willingness to compromise. Suspicion and fear separate them, fed by a press on both sides that lacks balance and sometimes stimulates fear and mutual animosity. Compounding problems is the fact that high unemployment and a stagnant economy contribute to the tensions. Those who see no future have less to lose.

If interethnic fighting does break out in Macedonia, it will be difficult for Macedonian state leaders to resist cooperation with Belgrade in a joint effort to strike back at rebelling Albanians. While the international community might frown on such developments, members are unlikely to contribute forces to separate the sides, leaving the fate of Macedonia, in large measure, in the hands of the people who live there. The costs, hidden and visible, would be incalculable. Macedonians of all ethnicities would live in a perpetual state of fear, with the security forces playing an enhanced role in governance. Economic development would be slow at best, dead

at worst. The basis of the democratic state would be eroded, and in the end, the state would most likely collapse, leaving the pickings for its neighbors. And most Macedonians seem to know this, especially the Albanians.

Even so, few people seem able to think beyond the past—or the present—to the future. If there is to be a de-escalation of tensions, all sides have some backing down to do and some risks to take if they hope to place the country on a more secure footing. They need to undergo a transformation that enables them to learn to trust each other—a long-term process at best. It may be necessary to establish a federated Macedonia, an idea that would win international support, though one that would be greeted angrily by ethnic Macedonians and with suspicion, at this point, by Albanians. If managed properly, however, it could stabilize the state—but there is a risk that economic and political ties between Macedonians and Albanians will be too weak to sustain a viable Macedonia. To make such a compromise succeed, all must regard themselves as committed stakeholders in the preservation of a joint interest, the state. Immediate political and economic reform are thus essential, for people need to believe in the future and to know that they will have full bellies.

The breakup of the Republic of Macedonia is in no one's interest, although various nationalists at home and abroad might disagree. Disintegration would only worsen the already unstable conditions in the central Balkans. Can accommodation be reached? Maybe, if all the republic's citizens back a reasonable solution; after all, they coexisted in peace for 50 years as part of the former Yugoslav state, why not 50—or 500—more? But the West must be prepared to take action if required, and with a deliberate and forceful stride, not a shuffle as it did in Bosnia. Macedonia, with assured protection, could embark on a new beginning, albeit slowly and with much need for goodwill and confidence building on all sides. If conditions are left to deteriorate, the alternative could be an escalation of Balkan nationalism to new heights, with civil strife or even war. ■

"The March 1997 crisis in Albania was not only the result of the collapse of pyramid investment schemes; it also stemmed from the failure to introduce functioning, independent, democratic and legal institutions. . . Although pyramid schemes appeared in other postcommunist countries, only in Albania did their rise and fall have such devastating effects."

Upheaval in Albania

FABIAN SCHMIDT

Frequent and unexpected changes have marked Albania's democratic experience. Since the end of Communist rule in 1990, the country has held four parliamentary elections; it has also had six governments, only one of which has served its full term. No major political force has shown itself capable of keeping Albania on a path toward steady economic and institutional development.

The abrupt changes have demonstrated, however, that Albanians, unlike some of their postcommunist neighbors (such as the Serbians), have been able to change their leaders through free elections when they have lost confidence in their democratic credentials and administrative abilities. Even though the process that led to the most recent parliamentary elections in June 1997 was far from democratic and pushed the country into a vicious period of violence, the outcome was a free and fair ballot that few thought could be achieved.

The main problems the current government faces are the same as those of its many predecessors: underdevelopment, a huge budget deficit, and an administration vulnerable to corruption because of low salaries in the public sector. The future of the new government depends on whether it can create jobs and the conditions for prosperity, which are crucial for further democratic development. Only a solid democracy will create the basis for long-term development; but popular appreciation of democratic values and systems will grow only if Albanians remain involved in the democratic process and receive the benefits of economic growth.

AN ECONOMIC SHELL GAME?

The Communist Party of Labor of Albania (PLA) won Albania's first free elections in March 1991, but the government formed in May after the balloting failed to quickly implement economic reforms. Growing social unrest and rising poverty led the PLA-dominated parliament to appoint two subsequent governments in 1991. The first of these, appointed in June, included both PLA and opposition politicians, and the second, appointed in December, was made up exclusively of "experts," and was charged with organizing a new vote in March 1992.

The Democratic Party won the second postcommunist elections in March and Sali Berisha became president. At that time the party was a conglomerate of different reform groups united mainly on the strength of their opposition to the communists.

After the elections the Albanian party spectrum began to differentiate. While the Democratic government and President Berisha moved quickly to implement a Western-oriented reform program, splits emerged among the Democrats and their allies. The right-wing Republican Party, charging Berisha with failing to speed up privatization and compensate former property owners, left the government coalition. Another, more liberally oriented group within the Democratic Party said Berisha was developing a new class of careerist politicians and ruling the country in an authoritarian manner. This group broke away from the Democrats and founded the Democratic Alliance Party. The Party of Labor, meanwhile, changed its name to the Socialist Party and adopted a Western-style social democratic program.

The governing coalition shrank further when the Social Democrats—the second coalition partner in Berisha's government—challenged the president

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over whether the country should adopt a new constitution by referendum or through a parliamentary vote. Berisha had called for a constitution based on a presidential rather than a parliamentary democracy and wanted it adopted by referendum after he failed to get the necessary two-thirds backing in parliament. The Social Democrats accused Berisha of trying to circumvent parliament and left the coalition. The referendum, which was held in December 1994, failed.

Despite these cracks in his government and the setback on the constitution, Berisha in 1995 could point to some successes, especially in the economic field. Albania had one of Eastern Europe's fastest growing economies, with real GDP growth increasing from -9.7 percent in 1992 to 11 percent in 1995. The annual per capita GDP rose during that same period from \$207 to \$753, and the official unemployment rate fell from over 40 percent in 1992 to below 13 percent in September 1996. Annual consumer price inflation dropped from more than 225 percent in 1992 to just under 7.7 percent in 1995, although it rose again to 17.4 percent the following year after a broad liberalization of food and utilities prices. Still the government made an optimistic economic forecast, (over)estimating average monthly income in the fall of 1996 at \$80.

Albania was active on the international front as well, becoming a member of the Council of Europe in the summer of 1995. At the same time Albania became one of the strongest motors of NATO integration in the Balkans, actively cooperating in joint military exercises with almost all Balkan and Adriatic neighbors outside the former Yugoslavia. The government was also eager to settle disputes with neighboring Greece over Albania's ethnic Greek minority, and the previously strained relations between the two countries improved noticeably.

Yet Albania has once again become a basket case. Until recently many of the country's economic problems were obscured by the apparent successes. The large trade deficit, for example (\$416 million in 1995), was financed only through hard currency remittances from Albanians working abroad, mainly in Greece and Italy. Also, the massive emigration that occurred during the country's democratic transition contributed to the low official unemployment rate.

Problems were also masked in the financial sector. The lack of a proper private banking system was slowly addressed with the opening of Greek

banks and a stock exchange in early 1996. The stock exchange, however, never developed and soon ceased operating. Rather than putting their money in the nascent banking system, inexperienced savers preferred to invest in pyramid schemes offering astronomical interest rates. Like all pyramid schemes, these investment "vehicles" merely used the monies of new investors to pay high rates of return to previous investors. The lack of regulatory legislation and law enforcement in this area and the financial inducements—some short-lived pyramids offered returns of up to 20 percent monthly—created a volatile mix. Still, the companies running the pyramid schemes quickly became a symbol of Albania's apparent economic progress.

Italian investigators and intelligence sources suggested that these companies rose quickly by laundering money from oil smuggling to Montenegro in the rump Yugoslavia and from drug and refugee smuggling to Italy. Another large share of the business was apparently trading arms to Rwanda, Afghanistan, and Bosnia. Revenues from these sources were one of the reasons why the pyramid schemes continued to operate so long without collapsing.

But once the Dayton accords ending the conflict in Bosnia were signed in late 1995 and the lucrative market for illegal oil and arms had dried up, the pyramid schemes were in serious danger. By early 1996 they were able to remain afloat only by advertising their successes to attract new domestic investors. In June 1996 the World Bank strongly urged the Albanian government to intervene against these companies, but it would be another six months before their collapse forced parliament to take action. By then it was too late.

THE AUTHORITARIAN BUILDUP...

President Sali Berisha's authoritarian shift had already become evident in 1994. Human rights groups documented numerous cases of human rights violations, interference with the judiciary, reprisals against the media, and even violence against political opponents of the ruling Democratic Party.

The most blatant cases included the imprisonment of Socialist Party head Fatos Nano, who was charged with assisting an Italian company in the misappropriation of humanitarian aid funds while serving as prime minister in 1991. Even though an

*Respect for
human rights and
the rule of law
remains weak.*

Italian court acquitted the Italian company of the charges, Nano remained in prison.

Nano's case also marked the end of a long-lasting dispute about the independence of the judiciary. Albania was admitted to the Council of Europe only after Speaker of Parliament Pjeter Arbënorë committed the government to ensuring the judiciary's independence; he also pledged that Nano's case would be reviewed and that there would be an international inquiry. None of these promises was kept. Just two months after Albania's admission to the Council and shortly before he was about to review Nano's case, Supreme Court Chief Justice Zef Brozi was sacked by parliament. The dismissal was arbitrary and illegal. The Constitutional Court later approved it, even though the constitution clearly proscribes parliament's act. An international inquiry into Nano's imprisonment never took place, and Nano himself was freed from prison only during the unrest in March 1997.

The next strong indicator of the Berisha government's increasing authoritarian tendencies came with national parliamentary and local elections in October 1996. The Democratic Party won more than two-thirds of the parliamentary seats; the opposition accused Berisha and the Democrats of election fraud and extending party control over the legislature, the executive, the judiciary, and the media.

The Organization for Security and Cooperation in Europe (OSCE), which had observed the elections, issued a report that "the implementation of the election law failed to meet its own criteria. . . 32 articles out of 79 dealing with the pre-election period and election day were violated." Violations cited by OSCE included cases such as a 105 percent voter turnout at one polling station and many instances of intimidation and violence.

... AND THE DESCENT INTO ANARCHY

The collapse of the pyramid investment schemes half a year after the elections was the straw that broke the camel's back. Thousands of cheated investors protested in December and January 1997 in the southern cities of Gjirokastra and Vlora, demanding that the government return their money. People charged that "Berisha first stole our votes, and now our money." Some pyramid companies had openly sponsored the Democratic Party's election campaign. Many also believed that corrupt government officials used the schemes to launder money earned from smuggling activities.

These protests led to an uprising in southern Albania, which spread north during March. People

looted arms depots throughout Albania. The army and public order collapsed and the country appeared to be on the brink of civil war. Public buildings were destroyed, banks looted, and, according to official figures, about 1,500 people were killed (many of them accidentally by bullets fired into the air by looters and others firing automatic weapons haphazardly).

Criminal gangs found the situation ideal to engage in a range of illicit activities, from robbery to smuggling arms, drugs, and refugees. As in 1991, tens of thousands of Albanians fled by boat to Italy or Greece. Even after more than 80 people died when a refugee boat collided with an Italian coast guard vessel in late March, the exodus continued.

The March 1997 crisis in Albania was not only the result of the collapse of pyramid investment schemes; it also stemmed from the failure to introduce functioning, independent, democratic and legal institutions. The lack of democratic experience also proved central. Albania had last had a democratic government in 1924. And in no other country did communism isolate its citizens so thoroughly from the outside world. Although pyramid schemes appeared in other postcommunist countries, only in Albania did their rise and fall have such devastating effects.

PUTTING ALBANIA BACK TOGETHER

On March 8, 1997, OSCE envoy Franz Vranitzky successfully mediated an agreement between President Berisha and the opposition (the task of finding a solution had fallen to OSCE since it, under current European security arrangements, is charged with mediating internal conflicts). Both sides agreed to the formation of a government of national reconciliation under Socialist Prime Minister Bashkim Fino, formerly a mayor in Gjirokastra, and early elections were announced. The new Albanian government asked the international community to send a multinational stabilization force to Albania. The Western European Union and NATO refused to assemble a force; it fell to Italy, after receiving a UN mandate, to organize the endeavor. Various other European countries, including France, Greece, Turkey, Spain, Romania, Austria, and Denmark, agreed to participate, and a contingent landed in Albania with inflatable boats and considerable media attention on April 15.

Parliamentary elections proceeded without major violence on June 29 and July 6, even though the government, assisted by OSCE, had hardly two months to prepare. Despite much apprehension, the

The United States Senate is about to consider whether the North Atlantic Treaty Organization should expand its membership to include the Eastern European nations of Poland, Hungary, and the Czech Republic. Is it a "bad idea whose time has come," as some have put it? The following edited transcript of a January 1998 presentation by a group of leading security specialists makes the case that the answer is no.

The Case against NATO Expansion

MICHAEL MANDELBAUM The first and most important thing to know about NATO expansion is that there is no reason to do it. I have made this point at length in my pamphlet *NATO Expansion: A Bridge to the Nineteenth Century*.

In his State of the Union address, President Clinton associated NATO membership for Poland, Hungary, and the Czech Republic with democracy. Perhaps he meant that NATO membership is necessary to make these countries democratic, but that's not true. Democracy is not in question in any of them. Where it is in question, namely Russia and Ukraine, NATO membership has not been offered. Alternatively, he might have meant that NATO membership is a reward for already being democratic.

But this raises the question of why these countries need a reward, and if they do, why it is up to the United States to offer it, and why NATO membership is an appropriate reward. Every American president from George Washington to George Bush believed that democracy was its own reward, and if thugs and tyrants could be moved aside, people would govern themselves democratically. Poland, Hungary, and the Czech Republic have proved them right.

Many who agree that NATO expansion brings no benefits nonetheless believe that going forward will do no harm, and that stopping expansion now

would have terrible consequences. Neither of these propositions is true.

We are already paying a price for the prospect of NATO expansion in our relations with Russia. The crisis over Iraq demonstrates this. Seven years ago, when the United States went to war with Iraq, Russia, then the Soviet Union, was on our side, which was an enormous strategic asset. Now President Boris Yeltsin has publicly opposed the use of force against Iraq. He has done so because that segment of Russian opinion that cares about foreign affairs, the Russian foreign policy elite, has become reflexively anti-American, in part because of NATO expansion.

NATO expansion is likely to affect our relations with Russia adversely and needlessly. Administration officials and supporters of NATO expansion argue that Russia doesn't really care about NATO expansion or that Russian opinion is divided. To the contrary, Russian elite opinion is strongly and unanimously opposed to NATO expansion.

Another cost of expansion that lies down the road is embodied in the so-called Baltic Charter. This is an extraordinary document—extraordinary not only for what it says and doesn't say but for the fact that it has received almost no discussion in the United States.

The United States has pledged to try to get NATO membership for the Baltic states of Latvia, Lithuania, and Estonia, which Russia adamantly opposes. How are we going to do this? How hard are we going to try? When? And what will we do if we fail? Do we already have a commitment to defend the Baltic states? And if the charter isn't a commitment, if it means nothing, why such pomp and ceremony on January 16 when it was signed by the president of the United States?

In fact, the Baltic Charter is a purely political document intended to send different messages to

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different audiences. The Balts are being told that they are going to be in NATO. The Russians are being told that the Balts will not be in NATO. The Western Europeans, who have no enthusiasm for either NATO expansion in general or Baltic membership in particular, are being told that they will never have to face the issue. And the American public is being told that it is doing something nice for the Balts at no cost. In other words, the Baltic Charter is the security equivalent of a Korean bank loan. It's fine until somebody demands payment, then it falls apart. And the working presumption of this administration is that nobody will ever demand payment. But what if somebody does? What is Plan B? How are we going to back up this rhetoric and these promises? No one has said. Extravagant promises with no visible means of support are not, to say the least, a good basis for American policy in Europe.

The argument that stopping now would be disastrous is obsolete. It had powerful resonance during the cold war because it was at least plausible then. The United States was engaged in a global conflict with a determined, militarized adversary. It was plausible to believe that showing weakness or irresolution in one theater of the conflict would encourage aggression elsewhere. It was precisely this fear that underlay the American decision to fight in Korea in 1950 and in Vietnam in 1965, and to hold firm in West Berlin throughout the 1950s and 1960s. But the circumstances that made the credibility argument plausible have entirely disappeared. There is no global conflict. The cold war is over. There is no militarized adversary. There is no Soviet Union. And its successor state, Russia, according to the very same administration that invokes this argument, is now our friend.

What would be the adverse consequences of delaying NATO expansion or deciding on a better course? There would be none. Would the Europeans be shattered? Would our Western European allies, the NATO countries that matter most, leave the alliance? One measure of their interest in and commitment to this project is how much they are willing to pay for NATO expansion. They have told us, unequivocally, how much they are willing to pay: nothing.

Four final points on alternatives to the present course. First, there's no rush to do anything. The administration itself asserts that there is no threat in Europe. Second, the country needs more information about this project. What are our plans for, and our obligations to, the Balts? What will be the cost of NATO expansion if there is a threat? And who will pay these costs?

Third, we now have the opportunity to do what former Senator Sam Nunn suggested several years ago: combine the extension of Western security commitments eastward with European Union expansion. Membership in the European Union is far more relevant to the needs of the former Communist countries of Central Europe than NATO membership, and polls in these countries show that the Central Europeans are much more interested in the European Union than in NATO. NATO expansion was first proposed when it looked as if the European Union would not open its doors any time soon to the former Communist countries. Now there is a schedule and a timetable for the expansion of the European Union. There is no reason not to make the extension of security commitments coterminous with that.

Finally, rather than expand NATO, we could take steps that would actually improve Europe's security. These include expanding and deepening the Partnership for Peace and expanding and deepening the remarkable arms control agreements that have gone much further toward demilitarizing Europe than anyone dreamed possible 10 years ago. Unlike NATO expansion, these measures would actually serve the national interests of the United States and contribute to a more secure Europe.

SUSAN EISENHOWER There are many commitments that are going to come with NATO expansion, and I am concerned that the American people are not prepared for what these commitments entail. I am reminded of the captain of the *Titanic*, boring full speed ahead, even though many of us have been warning that there are icebergs everywhere.

One of those icebergs is the lack of a consensus on NATO's mission. You have the administration's viewpoint that the "new" NATO will be an organization primarily responsible for stability and democratization in Europe. You have Senator Jesse Helms's approach, which holds that expansion has nothing to do with democratization; it is really about containing Russia. Then you have Senator Joseph Biden's view that expansion offers a useful vehicle for peacekeeping, something that Senator Helms doesn't think it should be doing at all. And finally, you have what I would call the Christopher-Perry idea of a global NATO.

Without a specific concept of what the new NATO will be we could find ourselves entering turbulent, even dangerous waters.

The biggest question is: Who is going to be in and who is going to be out? One of the things that

itary pincers movement just like the Germans tried in World War II.

This is why this next round of enlargement is so dangerous. The official Russian national security concept, adopted last December and signed by President Yeltsin, explicitly states that Russia believes NATO expansion threatens its national security. We should pay real attention to warnings like this.

But maybe the United States and the other NATO countries are not serious about real force improvements for the new member states. Maybe the armed forces of Poland, Hungary, and the Czech Republic will in practice be left in their dilapidated, nearly useless post-Warsaw Pact state. If this is what is going to happen, then why on earth are we going through this entire, dangerous exercise, arousing hopes and fears throughout Europe?

By any reasonable standard, the enlargement project is not only costly and risky, it is wholly unnecessary. As Michael Mandelbaum has pointed out, Eastern Europe is not threatened. Even if it were, NATO in its present form and membership provides fully adequate security insurance for the Eastern European states. And the Partnership for Peace provides a framework for practical military cooperation.

The European Union can do a much better job than NATO in bolstering the democratic structures and free market economies of the candidate states. All the NATO candidates in Eastern Europe, except Macedonia and Albania, are candidates for EU membership. Negotiations in the EU start this spring for Poland, the Czech Republic, and Hungary, as well as for Estonia and Slovenia. EU enlargement will take longer than NATO enlargement to conclude, but there is no crisis in Eastern Europe that requires speed. And Russia has indicated that it does not oppose EU enlargement.

The course of sticking with NATO as it is now and supporting EU enlargement will do the job at no additional risk and no additional cost.

The aspect of this problem that concerns me the most is that the enlargement process has become

uncontrollable, driven by its own dynamic. Azerbaijan has already indicated interest in joining NATO, and there have been statements of interest from Georgia. In fact, any member of the Partnership for Peace can apply, and there are 27 of these, in addition to present NATO members. There is literally no end to this enterprise in sight. The administration refuses to place any limits on it. Consequently, there is no logical end to potential United States security commitments and their costs and risks. Even if the administration decides at some point that the pace and the scope of open-ended NATO expansion are too great, the candidate states and their supporters, among them the Scandinavian states, will keep pushing. Any attempt by the administration to slow down enlargement will certainly be attacked by Republican leaders as weakness in the face of Russian opposition. We have to realize that we have a powerful domestic political dynamic driving this entire enterprise, and it may easily get out of control. I'm not attacking the fact that Republicans might criticize the administration in these circumstances, that's just the way our system operates. But the United States has put its fingers into a big grinder.

Confronted by possible charges of weakness in the face of Russia, the administration will probably continue with enlargement. Unless we find a way to put on the brakes at the outset, we may find that we are harnessed to a juggernaut with its own momentum and with no stopping point.

This risk of entering an uncontrollable process is something that the Senate should weigh seriously. If I were a senator, I would think very carefully before agreeing to take step one in such a runaway process. Instead, I would insist on seeing a detailed plan from the administration that shows the full extent, the timing, the costs, and the possible commitments in the entire enlargement program, before the United States takes the first step on this road. No new members should be admitted to NATO until the administration has produced such a comprehensive plan. ■

BOOK REVIEWS

"THE TROUBLES" IN NORTHERN IRELAND

Behind the Mask: The IRA and Sinn Fein

By Peter Taylor. New York: TV Books, 1997. 432 pp., \$29.95.

Postnationalist Ireland: Politics, Culture, Philosophy

By Richard Kearney. London: Routledge, 1997. 260 pp., \$18.95, paper.

The Lie of the Land: Irish Identities

By Fintan O'Toole. London: Verso, 1997. 172 pp., \$23.

The peace talks under way in Belfast, London, and Dublin may afford the best opportunity yet to end the conflict in Northern Ireland. For the first time leaders of Sinn Fein, the political wing of the Irish Republican Army (IRA), are sitting down with leaders of parties representing most of the loyalist paramilitary groups that have opposed the IRA. The British government, which has ruled Northern Ireland directly since abolishing the province's assembly in 1972, appears newly committed to resolving the conflict and establishing some form of democratic self-rule in the province. For its part, the Irish government has indicated a willingness to drop its long-standing constitutional claim to sovereignty over Northern Ireland.

Although at three decades "the Troubles" in Northern Ireland stand as one of modern Europe's longest-running conflicts, their roots can be traced back much further: to the establishment of Protestant supremacy in Ireland by English and Scottish settlers in the eighteenth century (or even further, depending on whom you ask). The Protestant population was centered in Belfast and the surrounding counties of the northern Ulster region; with the partition of the island in 1920 and the end of the Anglo-Irish War in 1921, the six predominantly Protestant counties remained part of the United Kingdom, becoming the province of Northern Ireland.

For 50 years the Protestant unionist majority controlled the provincial government with little interference from London. Meanwhile, the Catholic (and mainly Gaelic, or Irish) minority, effectively excluded from politics, was largely shut out of the economy as well, with many companies refusing to hire Catholic workers. Catholics were also discriminated against in the distribution of housing and public services. The police were overwhelmingly

Protestant. Northern Ireland, while "at peace," remained tense and divided.

The tension built in the late 1960s when a non-violent, largely Catholic civil rights movement began pressing for equality; in 1969 the situation exploded and the Troubles began when unionist extremists responded with violence. The ensuing sectarian bloodshed, and the police's failure to protect Catholics, led to the deployment of British army troops (initially, it is easy to forget, welcomed by most Catholics). By early 1971 the army, perceived to have sided with Protestants, became the target of a rejuvenated IRA, an organization that had been in decline since the Irish civil war of the early 1920s. So began the low-intensity but bloody guerrilla war that has torn the province ever since.

The three books under review shed light, from very different angles, on the Troubles and on the changes in the political climate that have enabled the peace process to come as far as it has. Peter Taylor is an award-winning journalist who has covered Northern Ireland since the 1972 "Bloody Sunday" massacre of apparently unarmed civil rights marchers in Derry (Londonderry) by British troops; his *Behind the Mask* accompanies a Frontline/BBC television program of the same name. The book, which chronicles the evolution of the conflict and the IRA campaign, features extensive interviews with IRA members, British soldiers and intelligence agents, politicians of all stripes, and other participants and observers. Taylor and those he interviews relate both well- and little-known episodes from the conflict—the tragedy of Bloody Sunday, the tarring and feathering of a Catholic woman for consorting with British soldiers, the mistrustful secret dialogues between the IRA and the British government—giving the reader a vivid sense of the terror and uncertainty that have prevailed in the province. Especially strong are the sections dealing with the early Troubles, the British security strategy, the hunger strikes by IRA and other republican prisoners, and the efforts by many parties since 1988 that produced the current cease-fire and negotiations.

Behind the Mask does not try to tell the story of the loyalist paramilitaries that sprang up in the early 1970s and whose tactics have been, if anything, even more abominable than the IRA's. Taylor also does not attempt to draw back and discuss the

larger historical and political questions surrounding the Troubles; his mission is to uncover details and convey something of the conflict's human drama. If his book has a central point it may be that all sides in the conflict have generally muddled through, without a grand plan and without any idea that the conflict would drag on as long as it has.

For a treatment of the political and cultural issues (inseparable in Northern Ireland) at stake, readers can turn to Richard Kearney's *Postnationalist Ireland*. Kearney, a longtime proponent of some of the ideas now being discussed at the peace talks (a council of the islands of Britain and Ireland, cross-border ties between Northern Ireland and Ireland), believes that "absolutist sovereignty claims have no place in negotiations on the North." As long as Catholic nationalists and Protestant unionists believe their cultural identities require undiluted territorial sovereignty, conflict is inevitable. Noting that the one setting in which nationalist and unionist politicians have been able to work together is in representing Northern Ireland's interests in European forums, Kearney sees hope for a solution in the project of a "Europe of regions," although he cautions that any transfer of sovereignty to the European Union must be accompanied by an increase in local political control.

It is local (and pluralistic) political control that Northern Ireland desperately needs; the province has never had a government viewed as legitimate by nearly all its citizens. Equally, certain mainstream political aspirations—a united Ireland—have never been seen as legitimate by unionists or their governments, even when pursued peacefully. As Kearney notes, "[p]aramilitary violence thrives on a widespread sense of illegitimacy. If we could develop a constitutional arrangement in Northern Ireland such that almost all the citizens would regard policemen and judges as 'ours' and not 'theirs,' and such that all Catholics were not seen by most unionists as crypto-subversives, then the paramilitaries on both sides could be so marginalized as not to survive on anything like the same scale."

Kearney's discussion ranges widely, with sections devoted to politics, culture, and philosophy, but the heart of the book lies in his proposals for Northern Ireland. While his arguments are mainly well reasoned and certainly passionate, Kearney occasionally suffers a critical lapse (as when he approvingly cites scholarship praising the decentralized politics of the Celts in Ireland—yes, but didn't they fight among themselves more often than not?) or simply what seems like unwarranted hopefulness. It may be that

"Irish people, North and South, [are moving] gradually beyond the orthodox equations of political and cultural identity." But can we really expect unionists to replace "the triumphalist emblems of Empire (Britannia, Sceptre and Crown, King and Country) with alternative images of accommodation: Britain as 'archipelago,' as 'North-West Islands' and so on"?

Still, Kearney's book remains an important contribution to the debate over the future of Northern Ireland. His is a rare perspective, moral, balanced, and generally pragmatic.

Like Kearney, *Irish Times* columnist Fintan O'Toole sees broad cultural change occurring in Ireland. In *The Lie of the Land*, O'Toole writes engagingly on such diverse subjects as the Catholic Church's crisis of authority, Ireland's unique position as an emigrant nation, younger Irish writers' fascination with Native Americans, and an attempt by the Irish Ireland movement in 1917 to replace the "alien" Santa Claus with an authentic Gaelic figure, Finn Varra Maa (accompanied by what the *Dublin Evening Herald* at the time described as a "nobly Irish" wolfhound "squatting on his haunches and occasionally biting himself"). O'Toole believes that in Ireland by the early 1990s the "fixed points on the compass of life—Church, nation, family—had been unsettled." He does not assess whether this is as true of Northern Ireland as it is of the republic, but he does venture that the peace process is part of an island-wide move toward democracy and the questioning of authority.

In an essay in the February 19 *New York Review of Books*, O'Toole sees reason to hope that the peace process might succeed (as well as ample reason to fear that it might not). He believes that the negotiations could produce progress on the historical position of Catholics in the north as a second-class group; resentment of that position, he says, has been one of the three main sources of support for the IRA, the others being ethnic hatred and an elitist republican revolutionary tradition. He also cites evidence of greater realism in recent years, both from republicans, who have publicly conceded that unionists have political and cultural rights, and from unionists, who appear willing to recognize the goal of a united Ireland as a legitimate political aspiration if pursued nonviolently. In short, O'Toole, like Kearney, thinks there is now an opportunity to marginalize the extremists by establishing a legitimate and pluralistic political space.

Still, the devil is in the details—and in Northern Ireland the details are devilish indeed.

Douglas Watson ■

THE MONTH IN REVIEW

January 1998

INTERNATIONAL

Iraq Crisis

Jan. 13—Iraq blocks a UN arms-inspection team from entering sites believed to contain biological and chemical weapons. Baghdad has protested the composition of the team of 9 Americans, 5 Britons, 1 Australian, and 1 Russian, saying it is biased in favor of US-British findings; Iraq blocked UN inspection teams in November 1997, citing the same concerns; UN economic sanctions were imposed on Iraq in 1990 and are not to be lifted until the UN is satisfied that Iraq no longer possesses weapons of mass destruction.

Jan. 14—The Security Council condemns Iraq for blocking arms inspections and demands that it allow inspectors "full, unconditional, and immediate access" to any suspect site.

Jan. 16—The US-led arms inspection team whose composition sparked the current crisis leaves Iraq; 2 other teams with broader international representation are allowed to carry out inspections.

The *New York Times* reports that France, Russia, and China have offered to contribute weapons specialists to UN inspection teams in order to satisfy Iraq's complaint about the disproportionate number of Americans and Britons.

Jan. 18—The Iraqi government calls on Iraqis to enlist in the military to train for a "holy war" against UN sanctions.

Jan. 25—In Washington, senior American officials and Western diplomats report that the US and Britain are planning a 3- to 4-day bombing campaign over Iraq in February if Baghdad continues blocking inspections; the Security Council must pass a resolution finding Iraq "in material breach" of the ceasefire that ended the Gulf War before the strike can occur; American officials say they do not need a UN resolution to take unilateral military action against Iraq.

Jan. 30—Meeting in Madrid, US Secretary of State Madeleine Albright and Russian Foreign Minister Yevgeny Primakov disagree over what action the Security Council should take concerning Iraq; Russia, like France and China, prefers a "patient," diplomatic solution; the US favors the use of military force.

North Atlantic Treaty Organization (NATO)

Jan. 16—In Washington, President Clinton signs a charter of partnership with the presidents of Latvia, Lithuania, and Estonia and pledges US support for their goal of joining NATO; the charter includes a US commitment to the countries' independence (but not a pledge of defense) and establishes a commission to promote democracy and market reforms.

United Nations

Jan. 12—Canadian Louise Fréchette is appointed deputy secretary general of the UN; the General Assembly voted in December to create the position, whose occupant has the power to substitute for the secretary general in his or her absence and oversee economic and social affairs.

Jan. 27—Former Norwegian Prime Minister Gro Harlem Brundtland is elected director general of the World Health Organization; she succeeds Hiroshi Nakajima of Japan.

ALGERIA

Jan. 3—Algiers newspapers report that on December 31, more than 400 civilians were massacred in the Relizane region of

western Algeria; security forces initially reported 78 people killed; survivors accuse the Armed Islamic Group of the attack.

Jan. 6—The Algerian newspaper *La Tribune* reports that on January 3 attackers in western Algeria killed 117 people, and that on January 4 in a village in the same region several hundred people were burned alive.

Jan. 7—Security forces report that 62 people were killed and 48 wounded yesterday and early today in 3 separate incidents in the western part of the country; they say the attacks were carried out by "terrorists."

Jan. 20—In Algiers, EU envoys end a 1-day mission to try to convince the government to allow UN investigations into the massacres; the government rejects the proposal.

ARGENTINA

Jan. 15—The navy arrests Alfredo Astiz, a retired captain and former member of the military death squads that killed or "disappeared" as many as 30,000 people between 1976 and 1983; a navy official says Astiz will be detained for 60 days because of inflammatory statements he made yesterday in the weekly *Tres Puntos*; Astiz boasted of his killings, threatened journalists, and insulted leading military officials and politicians.

Jan. 23—President Carlos Saul Menem expels Astiz from the navy; Astiz will lose his pension and access to military housing.

BOSNIA AND HERZEGOVINA

Jan. 18—The Bosnian Serb parliament elects Milorad Dodik prime minister of the Serb Republic.

Jan. 22—American NATO peacekeepers arrest Goran Jellic, a war crimes suspect, in Bijeljina; Jellic, who ran a detention camp where hundreds of Muslims and Croats are thought to have been killed in 1992, will face trial at the international tribunal in The Hague.

BRAZIL

Jan. 26—The government releases data showing that the destruction of the Amazon rain forest during the 1994-95 burning season was the worst ever recorded; the 11,196 square miles burned was nearly triple the amount burned 4 years earlier.

Jan. 28—Congress passes a law giving the federal environmental agency authority to enforce environmental statutes; previously companies generally appealed environmental fines to the courts, which threw out 94% of the cases on the grounds that the agency lacked statutory authority.

BURUNDI

Jan. 1—The government reports that earlier today outside Bujumbura, the capital, Hutu guerrillas killed as many as 200 civilians and 10 soldiers, and that government forces killed some 100 of the alleged guerrilla attackers and arrested about 30, most of whom have been identified as Rwandans; Burundian Hutu rebels have been fighting since 1993 to topple the minority Tutsi-controlled government and have been joined by Rwandan Hutus.

Jan. 3—In a statement sent to Brussels, the country's main Hutu rebel group, the National Council for the Defense of Democracy, says it attacked only military targets on January 1 and "formally refutes" the government's allegations that it killed civilians, saying the army attacked them while pursuing the fleeing rebels.

Jan. 11—At least 55 people are killed in skirmishes between the army and Hutu rebels outside Bujumbura.

Jan. 18—In Bujumbura, Hutu rebels clash with government forces; 3 soldiers and 2 rebels are killed.

Jan. 28—Talks scheduled to begin today between the government and opposition parties, aimed at ending Hutu rebel violence, are postponed after Defense Minister Firmin Simzoyiheba and 4 others are killed in a helicopter crash on their way to the meeting.

CAMBODIA

Jan. 17—Government troops battle rebels loyal to Prince Norodom Ranariddh at O'Smach, near the Thai border; 3 Thai soldiers are wounded by stray artillery fire; Ranariddh was ousted in a July coup by his co-prime minister, Hun Sen.

CANADA

Jan. 7—The government formally apologizes to indigenous groups for 150 years of assistance programs and residential schools that indigenous people say were "paternalistic" and "racist," respectively; the government promises to create a \$245 million "healing fund" for thousands of indigenous people taken from their homes and forced into the schools.

CHINA

Jan. 14—Pro-democracy activist Qin Yongmun releases an open letter to the Ministry of State Security saying that he would rather die than leave China and give up the struggle for legal political opposition and independent labor unions; earlier this month the ministry instructed Qin, who has spent at least 10 years in prison for his activism, to leave China for the US.

Jan. 19—US Defense Secretary William Cohen tours a military command center for air and missile defenses in the Beijing region; the tour is the 1st of the facility by any foreigner.

Hong Kong

Jan. 12—Peregrine Investments Holdings, the largest investment bank in Asia outside Japan, closes because of bankruptcy, triggering a fall by midmorning of almost 10% in Hong Kong's stock market.

CONGO

Jan. 27—President Laurent Kabila's government executes by military firing squad 21 people convicted of murder and armed robbery; earlier this month, 18 people were executed by firing squad in the eastern city of Goma; security sources have reported more executions in Lubumbashi and Bukavu.

CROATIA

Jan. 15—After 2 years of UN administration, the region of Eastern Slavonia is formally returned to Croatia; some 10,000 Croats were killed and 80,000 forced to flee when Serb forces seized the area during the war that erupted after Croatia declared independence in 1991.

CUBA

Jan. 25—Pope John Paul II concludes his 1st visit to Cuba with calls for respect for the right to dissent, saying "the exercise of freedom of conscience [is] the basis and foundation of all other human rights"; the pope also condemned the US economic embargo on Cuba.

CZECH REPUBLIC

Jan. 2—Josef Tosovsky, a former central bank governor, is sworn in as prime minister; Vaclav Klaus was forced from the post in November because of a campaign finance scandal.

Jan. 20—Parliament narrowly reelects Vaclav Havel president; Havel will serve a 2d 5-year term.

FRANCE

Jan. 10—Riot police expel jobless protesters from more than 20 welfare and labor offices across the country; the protesters had occupied the offices, some since December 15, to demand higher benefits for France's 3.1 million unemployed workers; yesterday Prime Minister Lionel Jospin pledged \$167 million in additional aid to the country's worst-off unemployed.

Jan. 21—Jospin announces that the government will index welfare payments to inflation retroactively to 1994, but that it cannot afford to raise the payments by \$250 a month as unemployed workers' groups have demanded.

Jan. 22—Jobless workers stage protests in cities throughout the country.

GERMANY

Jan. 10—The Berlin newspaper *Der Tagesspiegel* reports that Germany has agreed to pay \$110 million in compensation to Holocaust survivors in the former Communist countries of Eastern Europe.

HONDURAS

Jan. 27—Carlos Flores Facussé of the Liberal Party is sworn in as president in Tegucigalpa; he was elected November 30.

INDIA

Jan. 24—The Congress Party says it is withdrawing former Prime Minister P. V. Narasimha Rao's candidacy for next month's elections, citing his inaction during sectarian riots that left more than 3,000 people dead after Hindu zealots tore down a mosque in December 1992; in addition, Rao currently faces 3 criminal charges involving vote-buying and forgery.

Jan. 28—A court sentences to death all 26 defendants in the 1991 suicide bombing in southern India that killed former Prime Minister Rajiv Gandhi and 16 other people.

Jan. 30—Indian troops fire on Muslim protesters in the village of Kadrana, Kashmir, killing 9; an official says the troops had been trying to arrest 2 Muslim separatists.

INDONESIA

Jan. 8—Indonesia's currency and stock market suffer their worst 1-day losses ever, apparently because of fears that the IMF might cut off a \$40 billion aid package; 2 days ago the government unveiled a new budget that does not meet IMF expectations; the currency, the rupiah, has lost half its value since January 1.

Jan. 14—The *New York Times* reports that a recent confidential IMF report found that bank closings undertaken by Indonesia at the IMF's urging caused depositors to flee even basically healthy financial institutions.

US Defense Secretary William Cohen meets with President Suharto in Jakarta to discuss expanding security ties between the 2 governments.

Jan. 15—Suharto signs a new agreement with the IMF requiring Indonesia to cut spending and dismantle the monopolies that have long been at the center of the country's economy; the president says he will head a new cabinet ministry charged with overseeing the economy; today's agreement requires, among other things, that the central bank be given complete

independence in setting monetary policy and that the government abandon subsidies that have kept energy prices low.

IRAN

Jan. 6—CNN broadcasts an interview with President Mohammed Khatami, who proposes cultural exchanges between the US and Iran but says there is "no need" for official dialogue between the two governments.

ISRAEL

Jan. 5—Prime Minister Benjamin Netanyahu wins approval for his 1998 budget by a vote of 58 to 52 in the Knesset, yesterday. Foreign Minister David Levy resigned because of reductions in the social welfare programs in the budget, and because peace negotiations with the Palestinians have stalled.

Jan. 13—The cabinet agrees not to allow further withdrawals from the West Bank unless the Palestinian Authority fulfills a list of almost 50 conditions, ranging from the formulation of a new Palestinian National Charter not calling for the destruction of Israel to the extradition of 34 Palestinians wanted by Israel for terrorism.

JAPAN

Jan. 27—Finance Minister Hiroshi Mitsuzuka resigns to take responsibility for a scandal that led to the arrest yesterday of 2 finance ministry officials accused of taking bribes from the banks they supervised.

KENYA

Jan. 4—Final results from the December 28 and 29 presidential elections show incumbent Daniel arap Moi has been reelected with about 40% of the vote; opposition candidates Mwai Kibaki and Raila Odinga received 30% and 11% percent, respectively; 2 other opposition candidates received about 8% each; turnout was approximately 75%; a coalition of election observers has reported that the balloting was fair overall; it has been reported that before the elections Moi engaged in dividing his opponents along ethnic lines, registering voters to favor his party, gerrymandering, and ensuring that state radio and television focused almost exclusively on his campaign.

Jan. 22—Mwai Kibaki, challenging the validity of the elections, files a court petition to nullify Moi's victory.

KOREA, NORTH

Jan. 6—The UN World Food Program launches an effort to provide about 724,000 tons of food to some 7.5 million North Koreans; the effort is the largest emergency operation in the agency's history; North Korea suffered a drought last year and severe flooding the previous 2 years.

KOREA, SOUTH

Jan. 20—Labor, business, and government leaders issue a joint statement in which labor for the 1st time agrees to accept some layoffs in the effort to help the South Korean economy recover from the effects of a massive currency devaluation; last month the IMF offered a \$57 billion bailout package with strict austerity conditions.

Jan. 28—South Korean banks reach an agreement with their international creditors to extend payment on \$24 billion in short-term loans.

LEBANON

Jan. 31—Government troops surround a village in which Hezbollah leader Sobhu Tufaili is believed to be hiding; 2 days

ago soldiers raided a religious school Tufaili and 20 armed supporters had taken over; 4 supporters, 3 soldiers, and 1 unidentified man were killed and at least 50 people were wounded in the fighting.

MALAYSIA

Jan. 2—Deputy Home Minister Datuk Tajol Rosh Ghazali says that the government plans to expel 1 million foreign workers to help Malaysians keep their jobs during the current economic crisis; there are some 2 million legal foreign workers in Malaysia, and an estimated 800,000 illegal immigrants.

MEXICO

Jan. 3—President Ernesto Zedillo dismisses Interior Minister Emilio Chuayffet Chemor, who was in charge of negotiations with Zapatista guerrillas (EZLN) before they broke down in late 1996.

Jan. 4—EZLN spokespeople say the army conducted an operation yesterday to try to capture EZLN leader Subcommander Marcos.

Jan. 5—Zedillo names Foreign Minister José Angel Gurría finance minister; the post was vacated on December 15 when Guillermo Ortiz was chosen to head the central bank.

Jan. 7—Julio César Ruiz Ferro resigns as governor of Chiapas; he had come under pressure from the federal government for, and is accused by Chiapas church and opposition leaders of, ignoring signs of violence before the December 22 massacre of 45 people in Acteal, Chiapas, by a paramilitary group.

Zedillo appoints Rosario Green Macías, a veteran diplomat, foreign minister; she is reportedly the highest-ranking woman ever in a Mexican cabinet.

Jan. 12—State police open fire on pro-EZLN demonstrators in Ocosingo, Chiapas, killing 1 person and injuring 2; later Roberto Albores Guillén, the new governor of Chiapas, calls in troops to arrest the police battalion responsible.

Tens of thousands of people demonstrate in Mexico City to protest the December Chiapas massacre.

Jan. 13—The New York Times reports that federal prosecutors have charged a state police commander with helping to arm the perpetrators of the Acteal massacre.

Jan. 22—An appeals court in San Diego, California, upholds a December 19 order that Alfredo Hódoyán Palacios and Emilio Valdéz Mainero be extradited to Mexico to face charges of murder and criminal conspiracy; the 2 are accused of being paid killers for the Arellano Félix drug cartel, based in Tijuana.

Jan. 24—Government officials arrest Flavio Romero de Velasco, a former governor of Jalisco state, and accuse him of having laundered money for known drug traffickers.

Jan. 28—Rubicel Ruiz Gamboa, a leader in a peasant movement for land and democracy, is shot and killed outside his home in Tuxtla Gutiérrez, Chiapas.

Jan. 31—Carmen Cruz Gomez, an EZLN supporter imprisoned in Tuxtla Gutiérrez for 19 months on charges of attempted kidnapping, is released; she is the 1st of 300 Indian prisoners Chiapas Governor Albores Guillén ordered released as a conciliatory gesture.

NIGER

Jan. 1—State television reports that authorities have thwarted a plot by former Prime Minister Hama Amadou and 5 others to assassinate President Ibrahim Mainassara, in January 1996, Mainassara ousted the country's 1st democratically elected president and placed Amadou under house arrest.

NIGERIA

Jan. 21—A spokesman for the government reports that 60 people have now been arrested in connection with an alleged coup.

attempt in December; the deputy head of state, Lieutenant General Oladip Diya, and 11 others were initially arrested on charges of plotting the coup; suspects who are arraigned will be tried by a secret military court.

PAKISTAN

- Jan. 1—The government files corruption charges against former Prime Minister Benazir Bhutto, her husband, and her mother; the 3 are accused of taking kickbacks for awarding contracts.
- Jan. 12—Thousands of Shiite Muslims protest an attack by 2 Sunni Muslims on Shites praying yesterday in Lahore that left an unknown number of worshippers dead; protesters today smashed cars and tried to storm the Punjab parliament.

PALESTINIAN AUTHORITY

- Jan. 10—On the West Bank, hundreds of Palestinian protesters clash with Israeli soldiers; on December 21, Israeli Prime Minister Benjamin Netanyahu asserted Israel's claims to the West Bank up to the Jordan River and said any final Israeli West Bank withdrawal agreement with the PA must retain security zones and Jewish settlements.
- Jan. 19—A Palestinian military court sentences 2 members of Hamas, the militant Islamist group, to 15 years in prison for making the bombs used in 2 Jerusalem suicide attacks on July 30 and September 4, 1997, in which 21 Israelis were killed; the men were arrested January 15 in Nabhus.

RUSSIA

- Jan. 16—Prime Minister Viktor Chernomyrdin announces that First Deputy Prime Minister Anatoli Chubais will no longer be in charge of government policy on the news media, and that First Deputy Prime Minister Boris Nemtsov is no longer responsible for overseeing the fuel and energy sectors of the economy; no reason is given for the changes.

RWANDA

- Jan. 12—Government officials report that on January 8 in Rwanda's northwestern province, Hutu rebels killed 9 nuns.

SOUTH AFRICA

- Jan. 7—Alex Boraine, the Truth and Reconciliation Commission (TRC) deputy chairman, announces that former President P. W. Botha will be prosecuted for refusing to appear before the TRC; Botha, who led the government for 11 years in the apartheid era, faces up to 2 years in prison or a fine if convicted of ignoring a TRC subpoena, which he has done 3 times; Botha has called the TRC a "circus" and a witch hunt for apartheid leaders.
- Jan. 13—The TRC says it will allow a court to determine whether the commission exceeded its powers when it granted blanket amnesty to 37 officials of the African National Congress party in December.

SPAIN

- Jan. 9—A car bomb kills José Ignacio Iruretagoyena, a Basque city councilman of the governing Popular Party; the government blames Basque separatists, who previously killed 3 other councilmen from the same party.
- Jan. 30—Alberto Jiménez-Becerril, the deputy mayor of Seville, and his wife are shot and killed; officials say Basque separatists are responsible.

SRI LANKA

- Jan. 25—Three attackers and 8 other people are killed and 23 are wounded in a suicide truck bombing at the Temple of the Tooth, Sri Lanka's holiest Buddhist temple, in Kandy; later a Sinhalese mob burns down a Hindu cultural center in Kandy, injuring no one; no group immediately claims responsibility.

for the temple attack, but officials say they suspect the Liberation Tigers of Tamil Eelam, who for 15 years have fought a war for independence for the country's mostly Hindu Tamil minority; some 51,000 people have died in the civil war.

SWITZERLAND

Jan. 14—The government denies charges that Jewish refugees in Switzerland during World War II were kept in forced-labor camps; the charges appeared in a recent report prepared by historian Alan Morris Schom for the Simon Wiesenthal Center in Los Angeles; the government maintains that all Swiss citizens were forced to work, but that conditions for the refugees were not prison-like.

THAILAND

Jan. 5—The government says it will ask the IMF to ease the terms of the \$17.2 billion bailout package negotiated last year after Thailand's currency collapsed.

TURKEY

- Jan. 2—The army says it has killed 13 Kurdish separatist guerrillas in Diyarbakir and Hakkari provinces; in the past several days more than 1,200 Kurdish refugees, mainly from Turkey but also from northern Iraq, have arrived in southern Italy seeking asylum; the war in southeastern Turkey has claimed some 27,000 lives in the past 13 years.
- Jan. 12—Unknown attackers set fire to an Eastern Orthodox shrine in Istanbul, killing its custodian; last month a bomb was thrown at the buildings of the Orthodox Patriarchate, injuring 1 person.
- Jan. 16—The Constitutional Court bans the Welfare Party, an Islamic-based party and the country's largest, and bars 7 of its leaders, including former Prime Minister Necmettin Erbakan, from political activity for 5 years; the court ruled that the party aimed to subvert Turkey's secular order; Erbakan urges calm and says he will appeal the case to the European Court of Human Rights.
- Jan. 26—The *New York Times* reports that Kutlu Savas, chairman of Prime Minister Mesut Yilmaz's Board of Inspectors, submitted a report earlier this month in which he concluded that agents of previous governments committed murder, established partnerships with drug dealers, laundered money through casinos, and attempted to assassinate Kurdish leaders and overthrow the government of Azerbaijan in 1995; several days ago Yilmaz and his coalition partners decided not to release some sections of the report dealing with "state secrets."
- The government imprisons Haluk Gerger, an outspoken political scientist and critic of the government's war on separatist Kurdish guerrillas; he is to serve 10 months for suggesting that the government negotiate with the rebels.

UNITED KINGDOM

Great Britain

- Jan. 9—Education Secretary David Blunkett says the government will begin subsidizing Islamic schools; Britain has long subsidized Protestant, Catholic, and Jewish schools.
- Northern Ireland**
- Jan. 3—British troops resume joint patrols with Northern Ireland police in an effort to contain a recent spate of sectarian violence.
- Jan. 9—British Northern Ireland Secretary Mo Mowlam meets with imprisoned paramilitary leaders at the high-security Maze prison outside Belfast in an attempt to preserve a cease-fire by Protestant paramilitary groups; after the visit, prisoners speaking for the Ulster Freedom Fighters (UFF), a Protestant paramilitary group, say they no longer oppose participation by

leaders of their organization's political wing, the Ulster Democratic Party (UDP), in peace talks that began in 1996.

- Jan. 11—Terry Enwright, a Catholic, is shot and killed outside a Belfast nightclub; the Loyalist Volunteer Force (LVF), a Protestant paramilitary group that opposes the present cease-fire and peace talks, later claims responsibility; the killing is the 3d the LVF has carried out since its leader, Billy Wright, was killed in prison late last month by members of the Irish National Liberation Army (INLA), a Catholic splinter group that also opposes the cease-fire; Enwright was related to Sinn Féin leader Gerry Adams; Sinn Féin is the political wing of the Irish Republican Army.
- Jan. 12—The British and Irish governments agree on a set of proposals for negotiations on the future of Northern Ireland, including a new elected provincial legislature (the 1st since 1972), to be chosen by proportional representation, and increased ties both with the UK and the Republic of Ireland.
- Jan. 18—The LVF claims responsibility for the killing of a Catholic man whose body was found today.
- Jan. 19—INLA gunmen kill a prominent loyalist with ties to the paramilitary Ulster Defense Association (which is observing a cease-fire) outside Belfast.
- A Sinn Féin delegation, including Gerry Adams and chief negotiator Martin McGuinness, meets with British Prime Minister Tony Blair at Blair's residence in London and expresses strong disapproval of the framework for negotiations put forward a week ago by the British and Irish governments.
- Jan. 29—Blair launches a new judicial inquiry into the 1972 "Bloody Sunday" massacre of 14 unarmed civil rights marchers by British soldiers in Derry (Londonderry); Ireland, which had pressured Britain to reopen the case, today released a report finding that the original 1972 investigation (which exonerated the soldiers) had ignored ballistic and medical evidence and more than 500 accounts by witnesses; the new inquiry will be undertaken by a panel of 3 judges, 1 British and the other 2 to be chosen from British Commonwealth countries.
- UNITED STATES**
- Jan. 2—The *New York Times* reports that on December 31, Attorney General Janet Reno invoked her power to clear the entry of 3 Cubans, including 2 star baseball players, into the US; 5 other accompanying Cubans were not allowed entry; administration officials say the 2 ballplayers and the wife of 1 would have qualified for visas under the category of immigrants with extraordinary skills had they been from almost any other country, and faced certain persecution if they returned to Cuba, and that the 5 other Cubans did not face certain persecution; under the administration's policy Cuban refugees collected at sea who can prove a credible fear of persecution if they return to Cuba are resettled in a 3rd country.
- Jan. 8—In a federal district court in New York, Ramzi Ahmed Yousef is sentenced to life plus 240 years in prison for plotting the February 26, 1993, World Trade Center bombing that killed 6 people and injured as many as 1,000; addressing the judge, Yousef, whose real name and nationality are not known, says he is proud to be a terrorist.
- Jan. 22—Saying that he is a terrorist, the INS orders the deportation of Saudi dissident Hani al-Sayegh; Sayegh recently backed out of an agreement with the US government to help investigate the June 1996 bombing in Dahrhan, Saudi Arabia, that killed 19 American airmen.
- Jan. 29—In Birmingham, Alabama, a bomb explosion at a health care clinic where abortions are provided kills an off-duty police officer working as a part-time guard at the clinic and seriously injures a nurse; no group takes responsibility.
- Jan. 30—In its annual report on human rights worldwide, the State Department finds that China was "somewhat more

tolerant" of dissidents in 1997 but that it continued to commit widespread human rights abuses; Saudi Arabia, Turkey, and Mexico, close allies of the US, are harshly criticized and Algeria is singled out as a "human rights nightmare", also cited for pervasive rights abuses are Burma, Congo, Cambodia, Burundi, Rwanda, Pakistan, Indonesia, Nigeria, and Cuba

UZBEKISTAN

Jan. 28—*The New York Times* reports that President Islam Karimov has waged a monthlong crackdown on Islamic practices, including removing mosque loudspeakers used to call Muslims to prayer, detaining about 100 Muslim women protesting the crackdown and the detention of their husbands or sons without charges, establishing curfews in 2 cities, and harassing men with beards; the anti-Islamic campaign began last month after the killing of 4 policemen in the majority Muslim city of Namangan, east of Tashkent; no one claimed responsibility for the attack.

YUGOSLAVIA

Montenegro

Jan. 15—Milo Djukanovic, a foe of Yugoslav President Slobodan Milosevic, is inaugurated president of Montenegro (he was elected in October); yesterday Milosevic supporters stormed government buildings in Podgorica in an effort to stop the inauguration; dozens of people were injured and 13 of the rioters arrested.

ZAMBIA

Jan. 10—Former President Kenneth Kaunda is formally charged by the government with backing a coup plot against President Frederick T. J. Chiluba.

ZIMBABWE

Jan. 21—President Robert Mugabe establishes price controls to curb steep rises in food prices that have touched off riots in the capital, Harare, over the last 2 days; since late December, prices for basic commodities have risen some 42%; since January 1997, Zimbabwe's currency has fallen 70% against the dollar ■

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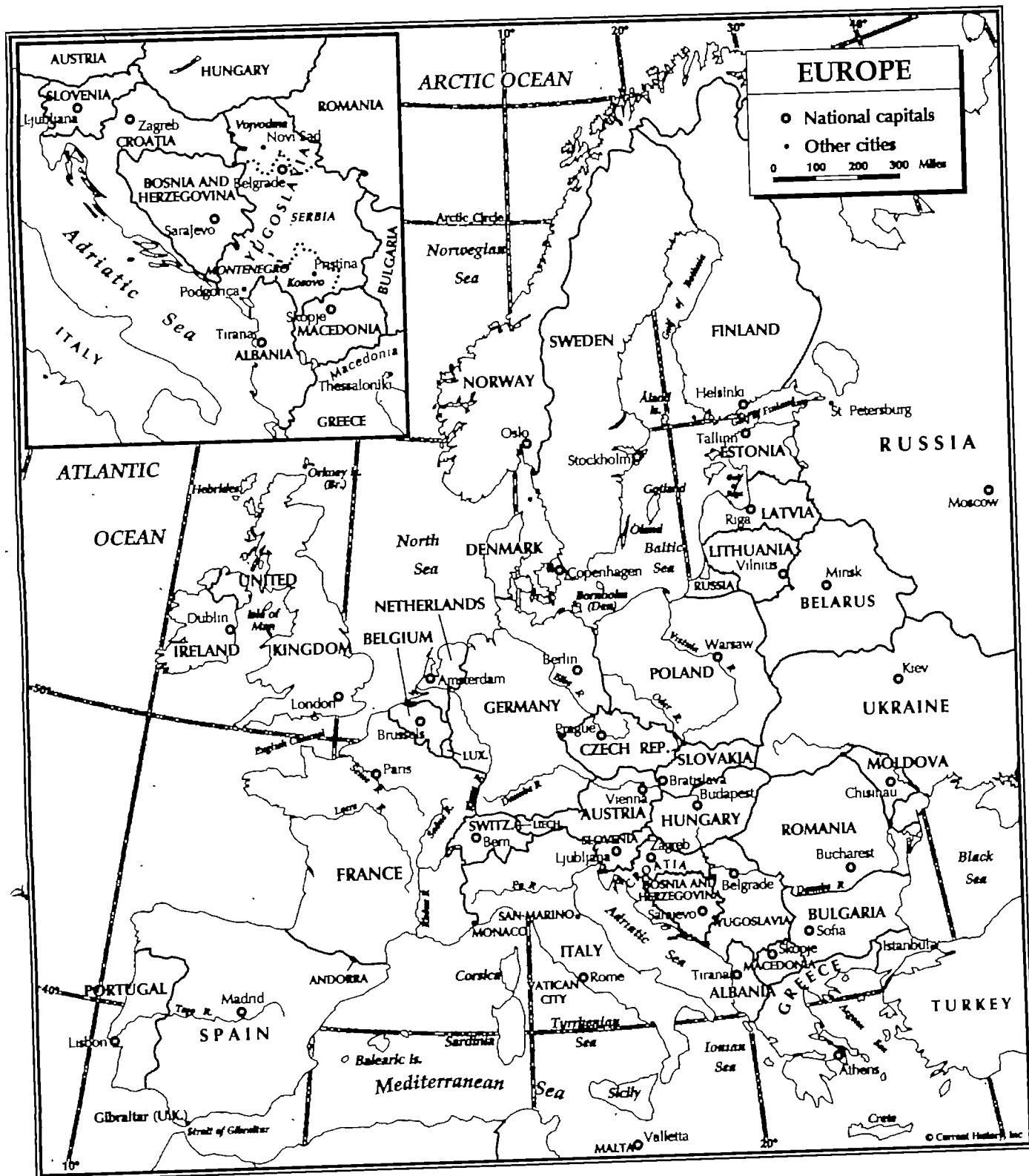
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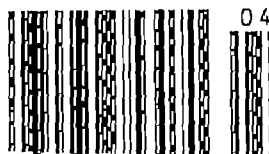
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EDITOR'S NOTE:

"We're taking down the surrender flag that has flown over so many drug efforts. We're running up the battle flag. We can fight the drug problem, and we can win."

President Ronald Reagan's June 1982 declaration of war on drugs launched the most recent phase of America's ongoing campaign against illegal narcotics. Reagan's embattled United States standing tall against an onslaught of foreign drugs was more than a rhetorical flourish; it has become the defining image that has guided drug policy under every administration since his and catalyzed an increase in federal drug enforcement expenditures from just under \$2 billion in 1982 to \$17 billion in 1998.

Yet, as the authors in this month's special issue point out, the last 16 years have seen the production and purity of cocaine and heroin increase and their street price decrease. At the same time the end of the cold war and the rush to globalize the economy have opened new avenues to transport drugs and launder the traffickers' profits.

The articles that follow sketch the contours of this gloomy landscape. They also lead to the conclusion that the time has come to just say no to a militarized drug strategy saddled with a Maginot Line mentality; the emphasis should instead be on the appetites, attitudes, and addictions that stimulate demand at home.

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"For too long, United States drug policy has been driven by the need to appear 'tough' on drugs, regardless of results. The United States should leave behind the distinction between 'tough' and 'soft' approaches to drug abuse and concentrate its attention, research, and resources on determining what actually works."

America's Drug Problem and Its Policy of Denial

MATHEA FALCO



For almost 100 years, Americans have considered other countries the primary source of their drug problems. When the first drug laws were adopted in the early decades of this century, the public associated drugs with immigrant groups and minorities: opium with Chinese laborers in the west, cocaine with blacks, and marijuana with Mexican immigrants in the southwest. These drugs were seen as foreign threats to the social fabric, undermining traditional moral values and political stability. Today this link between foreigners and illicit drugs continues to influence United States international drug policy, prompting the government to use diplomacy, economic assistance, coercion, and military force to try to stop drugs from entering the country.

Americans strongly support government efforts to cut off foreign drug supplies. More than two-thirds of the respondents in a 1997 poll by the Pew Research Center for the People and the Press considered drug control to be a "top priority" goal of United States foreign policy; only protecting American jobs and preventing the spread of nuclear weapons received higher scores. Similar views have prevailed in other surveys. A 1995 Chicago Council on Foreign Relations nationwide poll found that

86 percent of Americans consider "stopping the flow of drugs" one of the country's most important foreign policy goals. The close connection in the public mind between international initiatives and drug abuse, which is often experienced as an intensely local problem involving families, schools, and communities, gives this issue particular resonance in public views of foreign policy.

SUPPLYING AMERICA'S DEMAND

America's drug habit has historically been supplied from foreign sources: cocaine and marijuana from Latin America and the Caribbean; heroin from Southeast Asia's Golden Triangle (Burma, Laos, and Thailand) and South Asia's Golden Crescent (Afghanistan, Pakistan, and Iran). However, in recent years a substantial percentage of illicit drug consumption in the United States has been met by illegal domestic production. In particular, many of the drugs gaining popularity among teenagers—marijuana, methamphetamines, and LSD—are produced at home as well as imported.

While much of the marijuana the country uses continues to be imported through Mexico and the Caribbean, domestic production now supplies an estimated one-third to one-half of America's consumption. Although a complete nationwide survey of illegal marijuana cultivation has never been made, government officials report major cultivation areas in states as diverse as New York, Kentucky, California, and Hawaii. Increased indoor cultiva-

MATHEA FALCO is president of Drug Strategies, a nonprofit research institute in Washington, D.C. The author of *The Making of a Drug-Free America: Programs that Work* (New York: Times Books, 1994), she served as assistant secretary of state for international narcotics matters from 1977 to 1981.

tion, which allows for more selective hybridization, has accelerated the trend toward higher-potency marijuana. In 1996, the THC (tetrahydrocannabinol) content of high-grade "sinsemilla" (seedless) marijuana ranged from 12 to 24 percent, according to the Drug Enforcement Administration (DEA), compared to less than 2 percent THC in marijuana cultivated in the early 1970s. Even as potency has increased, marijuana prices, after rising during the 1980s, have in the 1990s fallen back to levels of the early 1980s. Depending on its quality, marijuana now sells for roughly the same as in 1982—as little as \$40 per ounce, although prices for high-quality "boutique" marijuana strains can reach \$900 per ounce.

The historic view that America's drug problems are predominantly foreign in origin is thus harder to sustain, given increasing domestic illegal drug production, not only of marijuana, LSD, and amphetamines but also of newer "designer" psychoactive drugs such as MDMA (known as Ecstasy). Nonetheless, United States drug policy continues to concentrate on trying to reduce the foreign supply of drugs, both through efforts to reduce drug cultivation in other countries and to interdict drug traffic before it crosses America's borders. Unfortunately, the strategy of trying to reduce United States drug use by attacking drug supplies overseas is fundamentally flawed.

CERTIFICATION: THE "TOUGH" APPROACH

Emblematic of this focus on foreign sources is the United States government's annual "certification" process. Imposed by Congress on the executive branch in 1986, the concept of certification reflects a worldview that still classifies countries into producer, consumer, and transit categories. The intent of Congress was to put teeth into United States efforts to compel cooperation as well as to make the president accountable for enforcing a more vigorous international drug policy.

The certification legislation requires the president to identify annually those countries that are "significant direct or indirect sources" of illicit drugs "significantly affecting the United States." Inclusion on this list, which currently comprises 30 countries, automatically triggers certain sanctions unless the president decides to "certify" the country. Those deemed to have fully cooperated in drug control efforts are certified. Those deemed less cooperative are decertified, which results in the termination of United States assistance (except for humanitarian

and drug control funds), United States opposition to multilateral development loans for that country, and the stigma of being branded a drug-trafficking nation. This may carry negative economic repercussions beyond the aid-related sanctions included in the law; *The Wall Street Journal* reported in August 1997 that Colombia's decertification had contributed to an atmosphere of uncertainty, causing investors to put off new projects.

A "national interest" waiver is used to justify suspending the penalties for a country that would otherwise have been decertified—a way to improve performance without actually cutting off assistance. Congress has the authority to overturn presidential decisions by passing a joint resolution within 30 days, but has never done so.

Under Presidents Ronald Reagan and George Bush, the certification process was predictable and went largely unnoticed. Decertification was reserved for countries like Iran and Syria, with which the United States had limited or no relations, as well as Burma and Afghanistan, which together produce 90 percent of the world's illicit opium. Lebanon was consistently granted a national interest waiver. In 1988 and 1989, Panama was added to the decertification list, just before the United States intervened militarily to remove President Manuel Noriega for his involvement in drug trafficking.

Under President Bill Clinton, certification has become more rigorous. In 1994, Nigeria, a key trafficking country and a significant source of oil for the United States, was decertified for the first time. Also, Bolivia and Peru, the world's largest coca producers, joined a growing list of countries given a national interest waiver. In 1995, Colombia, a major source of cocaine and heroin; Paraguay, a cocaine transit country; and Pakistan, a prime producer of heroin, were added to the waiver list.

By 1996, certification had emerged as a major source of tension between the United States and its Latin American neighbors. The administration decertified Colombia for the first time because of alleged links between President Ernesto Samper and the drug cartels, which were believed to have contributed to his presidential campaign. Colombia was again decertified in 1997; Mexico, however, was certified, despite revelations of extensive drug-related government corruption that, as some observers noted, paralleled the situation in Colombia.

Critics both in the United States and Latin America argued that the certification process harmed relations with Mexico and Colombia without producing any measurable benefits. Moreover, a double stan-

dard appeared to influence the ultimate decisions. In 1996, trade between the United States and Colombia totaled \$9 billion, while United States-Mexico trade reached \$130 billion. Additionally, Mexico shares a border with the United States, making Mexican cooperation on a range of issues such as crime, immigration, and environmental protection essential to Washington.

Media coverage of the certification decisions was intense, especially in Latin America, where the decisions were widely viewed as demonstrations of United States imperialism. The idea of being formally judged by the United States remains objectionable to many countries. During the 1997 certification debate, the Mexican government rejected the concept of certification, pointing out that the United States is responsible for its own drug problem and has no right to pass unilateral judgment on other countries when it does not also judge its own performance. Although Congress did not overturn the administration's 1997 decision to certify Mexico, some members of the House of Representatives have indicated that a similar decision in 1998 will be met with stiff congressional opposition.

In practice, the consequences of decertification vary widely, depending on a country's reliance on United States and international aid. For major producer countries such as Burma, which is already isolated from the international community (and subject to United States sanctions on investment), the material consequences of decertification are virtually zero. However, for some countries, such as Bolivia, Haiti, Laos, and Cambodia, annual United States and multilateral bank aid amounts to a significant proportion of their GDP, making them especially vulnerable to the threat of decertification.

Relative vulnerability is only one part of the equation as to whether United States pressure will affect cooperation; even more important is the government's capacity to address illicit drug production and trafficking, as well as the sheer scale of the problem. The degree of United States leverage does not determine whether pressure will compel action. For example, the United States has considerable influence over a country like Haiti, but the Haitian government is so weak, particularly in the area of law enforcement, that it is largely incapable of producing drug control results, regardless of United States pressure.

A CERTIFIED FAILURE?

What impact has certification had in its 11-year history? From the United States perspective, the primary measure of the success of drug control efforts overseas would be reductions in foreign opium, coca, and marijuana cultivation as well as declining availability of foreign drug supplies coming into the United States. Reductions would presumably lead to higher domestic drug prices. However, worldwide opium production has doubled in the past decade, while coca production has nearly doubled.

The price and purity of drugs in the United States market are also traditional measures of drug control success. Reductions in supplies should make drugs more expensive and less pure (as dealers dilute purity to maintain profit margins). This in turn should prevent new drug use and drive addicts to go "cold turkey" or find treatment. However, since 1981, heroin's average retail price has fallen by more than half while its purity now approaches 50 percent, compared to only 16 percent in 1986. During the same period, the price of cocaine has dropped by almost half.

Administration officials point to some successes from the certification process: increased numbers of arrests of major traffickers in Colombia following decertification; reorganization of the antinarcotics police in Mexico after indications of widespread corruption made decertification a strong possibility in 1997; more vigorous efforts to reduce coca cultivation by the Bolivian government following national interest waivers in 1994 and 1995. However, these examples of government action that may have been influenced by the certification process have not produced measurable results in terms of reduced drug availability in the United States, the ultimate goal of United States international drug control efforts.

The certification process also has negative consequences for other United States interests. Focusing on one aspect of often complex bilateral relations can distort the management of foreign policy. In Latin America, where the process has been especially acrimonious, relations with half a dozen countries are dominated by United States narcotics control concerns. The unilateral nature of certification—where the United States passes judgment on other countries—undermines the administration's

The idea of being formally judged by the United States remains objectionable to many countries.

position that the nations of the Western Hemisphere should look to the United States as a partner in a broader effort to establish a community of democracies.

In the past year, momentum has been building for finding alternatives to the current certification process. Both the administration and the Organization of American States (OAS) are exploring new multilateral approaches to determining whether countries are fully cooperating in international drug control efforts. Discussion of these new approaches is on the agenda for the April 1998 Summit of the Americas meeting in Santiago, Chile. A more comprehensive system that would include an assessment of United States efforts along with those of other drug producing, consuming, and transiting countries, could be administered through an independent organization, perhaps linked to the OAS or the United Nations. This would broaden the approach beyond its current unilateral context as well as encourage political recognition of the global nature of the drug problem.

A KEY TO LASTING PROGRESS

The United States is the world's largest drug market in terms of revenue. According to the National Household Survey on Drug Abuse, 22 million Americans reported using illicit drugs at least once in 1996, while 12 million used drugs regularly (once a month or more). During the past five years, drug use among teens, especially of marijuana, has climbed dramatically.

What progress has been made in the past decade has come from reduced demand, which has declined in the face of increasing supplies of ever cheaper drugs. Between 1986 and 1992, marijuana and cocaine use dropped by half, reflecting the power of health concerns and negative social attitudes toward drugs (accelerated by the sudden cocaine overdose death of sports star Len Bias in 1986). However, public perceptions of the dangers of drugs have changed, and both adults and teens are more tolerant of drug use than they were five years ago. Reversing this trend will require intensive prevention and education efforts that build on the research of the past decade.

Extensive studies have found that school prevention programs can reduce drug use by half and new alcohol use by a third among young teens. These programs, built on social-learning theory, teach children to recognize the internal and external pressures that influence them to smoke, drink, and use drugs. Children also learn how to resist

these pressures through role-playing in the classroom. The cost of these programs ranges from \$15 to \$25 per pupil, including classroom materials and teacher training. Program results are stronger when prevention includes families, media, and the community in a comprehensive attack on alcohol, tobacco, and drug use. Anti-drug ads by the Partnership for a Drug Free America have intensified negative attitudes toward illegal drugs, particularly in markets where the ads appear frequently.

Treatment has also proved effective in reducing drug abuse and drug crime. National studies that have followed tens of thousands of addicts through different kinds of programs report that the single most important factor in measuring a program's success is length of time in treatment. One-third of those who stay in treatment longer than three months are drug-free a year after leaving treatment. The success rate jumps to two-thirds when treatment lasts a year or longer. Programs that provide intensive, highly structured treatment with supportive follow-up services, such as job training and housing referral, report even better results.

Treatment is less expensive than the alternatives. An untreated addict can cost society an estimated \$44,000 annually, compared with an average of \$19,000 for a year of residential treatment or \$2,500 for an outpatient program. A 1994 statewide study in California found that \$1 invested in alcohol and drug treatment saved taxpayers \$7.14 in future costs. Drug courts, which divert nonviolent drug offenders from prison to court-supervised treatment, are also cost-effective. Studies report that drug courts cut recidivism by half among treated offenders at a small fraction of the cost of incarceration, which runs about \$30,000 a year.

Treatment is also more cost-effective than supply reduction efforts. According to a 1994 RAND Corporation study, \$34 million invested in treatment reduces cocaine use in the United States as much as \$783 million spent for foreign source country supply control programs or \$366 million spent for interdiction. Domestic enforcement produces equivalent results for about seven times the amount invested in treatment; \$246 million in domestic enforcement reduces cocaine use as much as \$34 million in treatment.

MORE MONEY, FEWER RESULTS?

In the past decade, the government's drug control spending has more than tripled, climbing from \$4.7 billion in 1987 to \$16 billion in 1997. Most of this growth has supported domestic drug enforce-

ment and international interdiction, which account for more than half the total \$105 billion spent on federal drug control since 1989.

The single largest enforcement expenditure is for prisons. Increasing prison costs stem not only from climbing drug arrests but also from mandatory federal minimum sentences that have resulted in longer prison stays for drug offenders. More than 1.7 million people are behind bars in America. More than two-thirds have serious drug problems, yet intensive, rigorous treatment is available for less than 10 percent of these offenders. In 1997, the federal drug budget spent more for prisons than for prevention.

Although President Clinton has clearly articulated the importance of reducing the demand for drugs in the 1997 and 1998 National Drug Control Strategy reports, federal spending priorities have remained essentially unchanged. Efforts to cut off supplies of drugs through interdiction and enforcement continue to dominate the government's drug budget, accounting for two-thirds of total spending.

Despite impressive seizures at the border, on the high seas, and in other countries, foreign drugs are cheaper and more readily available today than two decades ago. Domestic production of illegal drugs such as marijuana and methamphetamines is increasing, further reducing the potential impact of interdiction on United States drug use. United States foreign supply reduction efforts have also caused problems of their own, especially in Latin America, where narcotics control dominates the diplomatic agenda with the United States. The unintended consequences of these programs have sometimes been severe, including political unrest among peasant farmers who rely on drug crops for their livelihood; human rights abuses as governments try to suppress drug cultivation; increased corruption among police and military forces; and expanding roles for the military in drug enforcement and internal security in countries where democracy is still fragile.

Ultimately, the costs incurred—both in the United States and overseas—in pursuing the sup-

ply-side drug strategy will not produce the promised benefits of reduced drug availability and higher drug prices. The largest drug profits are made within the United States at street-level sales, not in foreign poppy or coca fields or on the high seas. The total cost of cultivating, refining, and smuggling cocaine to the United States accounts for less than 15 percent of domestic retail prices. Recent anecdotal evidence from the southwestern United States suggests that smuggling costs may have increased as a result of intensified border interdiction: Mexican traffickers are said to be offering as much as half their cocaine shipments in exchange for safe passage. Still, the value of drugs at that point is only a fraction of their retail price on American streets. As one DEA official explained, "The average drug organization can afford to lose as much as 80 percent of its product and still be profitable."

MAKING DEMAND THE FOCUS

The nation's drug control strategy should shift from a primary focus on reducing drug supplies to reducing the demand for drugs through prevention, education, treatment, and community anti-drug coalitions. Law enforcement has a critically important role to play; studies indicate that street-level enforcement is more effective in driving up drug prices and has the added benefit of making neighborhoods safer. In the international arena, greater emphasis should be placed on attacking the growing power of the drug cartels that challenge the integrity of political, financial, and judicial institutions in this country and abroad. The United States should concentrate on efforts both to strengthen democratic governments and to combat money laundering, drug-related corruption, and violence through bilateral and multilateral initiatives. For too long, United States drug policy has been driven by the need to appear "tough" on drugs, regardless of results. The United States should leave behind the distinction between "tough" and "soft" approaches to drug abuse and concentrate its attention, research, and resources on determining what actually works. ■

"As with the effective marketing of any product at the end of the twentieth century, the drug system involves strategies and tactics that bring radically different civilizations, attitudes, and principles into contact. . . [Yet] the system of producing and marketing drugs is. . . very different from that of any other product, whether legal or not. Everything connected with drugs is at the same time 'modern' and 'traditional,' 'international' and 'local.' In short, drugs are the barely distorted reflection of the problems involved in managing the world at the dawn of the third millennium."

A Drug Trade Primer for the Late 1990s

GEOPOLITICAL DRUG WATCH

Since the late 1980s, drugs have become public enemy number one in the West, embodying the "new lack of order" that characterizes the post-cold war world. By advancing the theory of "the scourge of drugs," Western nations have above all sought to reemploy the geopolitical tools that had been rusting under the influence of what was perhaps hastily described as the "new world order."

The drug system operates on a global scale that recognizes neither nationality nor borders. It is governed by the rules of supply and demand, dumping, and even bartering. As with the effective marketing of any product at the end of the twentieth century, the drug system involves strategies and tactics that bring radically different civilizations, attitudes, and principles into contact, affecting them in various ways depending on the drugs involved. Although an integral part of local and regional history, the system of producing and marketing drugs is nonetheless very different from that of any other product, whether legal or not. Everything connected with drugs is at the same time "modern" and "traditional," "international" and "local." In short, drugs are the barely distorted reflection of the problems involved in managing the world at the dawn of the third millennium.

THE HYDRA EFFECT

The past two years have been a turning point in several respects, first and foremost because of the

changes observed in crime related to drug trafficking. During the 1980s the manufacture, export, and, to a lesser extent, distribution of drugs were mainly carried out by major criminal organizations, some of which had become involved in trafficking on a large scale in the course of the previous decade. These were the Italian criminal organizations, the Colombian cartels, the Turkish mafia, and the Chinese triads. Although the centralized and strictly hierarchical structure of such organizations has often been mythicized, it is true that they monopolized a substantial share of the market and maintained business relations with one another.

In the past two or three years the drug trade has taken on a noticeably different appearance. Admittedly, some large criminal organizations still exist (in Mexico and Burma, for example), as well as mid-sized outfits (in Colombia, Brazil, and Pakistan), but a massive number of small businesses have sprung up alongside them. In addition to the multi-ton drug shipments occasionally seized by the police—often amid a blaze of publicity—considerable quantities of drugs are transported in tiny batches. Placed end to end, they would stretch much farther than the large shipments, as the monthly reports issued by the World Customs Organization demonstrate.

There are several reasons for this change. The first and most obvious is that international anti-drug organizations and national police forces have focused on the most visible forms of crime, which have thus become vulnerable. This is especially true in Colombia and Italy, where major criminal organizations have overestimated their own strength

This article is adapted with permission from the 1997 report of the Paris-based Geopolitical Drug Watch. The full report may be found at www.ogd.org/rapport/gb/RPO3_TENDANCES.html.

and openly attacked the state itself. This has resulted either in the dismantling of the criminal organizations, as happened with the Medellín cartel after the death of drug lord Pablo Escobar in December 1993, or in a withdrawal or tactical change, as in the case of the Cosa Nostra and the Camorra (early 1990s), the Cali cartel (1995–1996), and the organization in Burma led by warlord Khun Sa (1995–1996).

The immediate effect of repression was to disorganize the networks. But by making a virtue of necessity, these large organizations quickly realized that decentralized structures are much less vulnerable and began the process of transforming themselves accordingly. In some cases they even anticipated events. Thus Khun Sa, Burma's "Opium King," gave himself up to the army without a fight in January 1996 in exchange for sharing the market with the military and the possibility of investing in other, licit economic sectors.

Similarly, it is likely that some of the so-called arrests of Cali cartel leaders by the Colombian government were in fact merely disguised surrenders fulfilling agreements with the cartels. Their leaders adopted a strategy of moving into legal business activities after negotiating with Mexican organizations to hand over parts of their export networks to the United States. The Colombian criminal organizations have not disappeared, but they are much more discreet today. They have given rise—if one adds other regional groups, such as the Bogotá and Pereira cartels, to the heirs of the two major cartels—to 40 midsized organizations.

Meanwhile, the withdrawal of the major cartels has enabled small businesses to find their place in the sun without taking too many risks. There might be from 2,000 to 3,000 of these small groups in Colombia, often families or groups of friends who have a relative or other contact in the United States or Europe. The Peruvian and Bolivian organizations, which used to be heavily dependent on their Colombian counterparts, have also taken advantage of the reshuffle to acquire greater independence and, in the case of the Bolivians, to work more closely with Brazilian criminal organizations.

Little is known about the restructuring process involving Cosa Nostra—although researcher Pino Arlacchi speculates that the *cupola*, its governing body, has not met for several years—but more information is available about the restructuring of the Camorra. Naples police say that the success of the struggle against the mafia, which can be attributed to the use of "turncoats" that has led to the arrest

of the main "godfathers," has caused a breakup of the organization and an increase in the number of smaller groups. In 1983, about a dozen Camorra groups were counted in Naples; there are now believed to be about 100, with a total of some 6,000 members. They are also better equipped, thanks to weapons obtained from the former Yugoslavia. Other chance factors have contributed to this trend. One example is the emergence of African networks—notably Nigerian—which are usually based on family or clan structures.

Clearly, these new types of organizations make the work of the police much more difficult, and in any case the dismantling of a network only affects a tiny part of the quantity of drugs in circulation. But it is not just police efforts that have triggered the traffickers' reshuffle; other factors have caused or allowed organizations connected with the drug trade to undergo major changes.

BOOMING PRODUCTION

In the past 10 years the supply of drugs has seen uninterrupted growth. Most of the older production zones for coca, opium poppies, and cannabis have remained stable or have been extended, while new production zones (poppies in Colombia, coca in Georgia) have been opened and areas previously cultivated for traditional use have been converted to supply the international market (Central Asia, the Caucasus, the Balkans, and Ukraine for poppies and sub-Saharan Africa for cannabis). One of the reasons for this is the internationalization of trade, the effect of which is often augmented by the introduction of structural adjustment programs that have downplayed the role of agriculture in many economies, especially in Latin America and Africa.

To the increase in drug plant cultivation must be added the booming market in synthetic drugs. This growth allows organizations of any size, and even individuals, to obtain drug supplies of all kinds. However, since demand for drugs has at the same time grown and diversified, this profusion on the supply side has not yet resulted in fighting over control of markets.

It was estimated at the end of the 1980s that cocaine hydrochloride production in Latin America ranged between 500 and 700 tons annually; by 1996 this figure was thought to have risen to between 800 and 1,200 tons. In 1988, Burma and Afghanistan were each producing between 800 and 1,000 tons of opium; in 1996 the figure reached about 4,500 tons between the two. Drug production

continues to expand in all the countries of Central Asia, the Caucasus, and the Balkans, as well as in China and Vietnam.

Marijuana production is also booming. The amount of land under cannabis cultivation in Morocco rose from 30,000 hectares in 1988 to more than 70,000 in 1996, allowing over 2,000 tons of hashish to be produced. Cultivation in Afghanistan and Pakistan combined yields a similar total weight. Colombia is once more becoming the major marijuana producer it was in the 1970s. Since the United States market is saturated with local crops and imports from Mexico and Jamaica, the Colombians are increasingly turning toward Europe. Seizures of marijuana from Asia, especially Cambodia, are becoming more frequent worldwide. South Africa produces tens of thousands of tons for its own market and is starting to export to Europe. Production is increasing rapidly throughout sub-Saharan Africa, especially in Kenya, Malawi, Nigeria, Ghana, the two Congos, the Ivory Coast, and Senegal. There are many signs that attempts to grow coca and opium poppies are also being made in several of these countries.

Growing global drug production comes in response to booming demand. The large traditional markets, Western Europe and the United States, are relatively stable. But new markets are emerging and expanding rapidly. In the case of cocaine these are Japan and Asia generally, South Africa, and especially Russia and other Eastern European countries. The heroin market is also expanding in the former communist states. In addition, there has been a boom in consumption of all kinds of drugs in the producer countries themselves and, more generally, in the third world. This is especially true with heroin in Asia (especially Pakistan, India, Thailand, and China) and cocaine in Latin America (especially Argentina, Brazil, and Chile). Synthetic drugs are also making major breakthroughs in third world markets in Asia and Africa.

This diversification of both user markets and production zones provides an initial explanation for the growing number of small and mid-sized businesses—especially given the increasing number of victims of the recession in both the third world and the major urban centers of developed countries, where narcotics production and trafficking and even “utilitarian” drug use can be means of survival.

THE INCREASE IN LOCAL CONFLICTS

The growing number of local conflicts, a side effect of the end of the cold war and the convulsions caused by the collapse of the Soviet Union, have also contributed to the changed nature of the drug system. The major powers, prevented from engaging in direct clashes by nuclear deterrence, previously came into conflict through their allies in the third world. The end of the cold war, far from bringing these local conflicts to a halt, merely highlighted the lack of any true ideological reasons behind them and unleashed forces based on ethnic, religious, and national factors.

The warring factions, no longer able to count on their powerful protectors to finance their causes, have been forced to seek alternative sources of income in trafficking, including drug trafficking. Some of these conflicts, such as those in Colombia, Afghanistan, and Angola, were in progress before the end of the cold war, but the withdrawal of the superpowers means they have acquired a new character, gradually drifting into predatory behavior in the case of the Armed Revolutionary Forces of Colombia (FARC), or ethnic and religious antagonism manipulated by regional forces in the case of the Afghan civil war. In most instances the end of the superpower struggle revealed dissen-

sion that the leaden weight of communist regimes had helped to mask; this is what happened in the Yugoslav, Chechen, and Azerbaijani-Armenian conflicts, and in the civil wars in Georgia and Albania. The protagonists in these clashes were thorough in their search for financial support, trafficking in a host of commodities that included oil, drugs, and strategic metals. Typically they used their diaspora communities and migrants in Western Europe as bridgeheads, with the players setting up networks to earn cash for the cause or sometimes acting autonomously. Secret agents in many countries (Russia, Pakistan, and South Africa, for example) who in earlier times had used the drug trade to finance unofficial operations have often switched to activities with purely criminal ends.

These developments, coupled with the factors mentioned above, have led to an increase in what Geopolitical Drug Watch describes as “short” or “fragmented” networks. The people involved are not trafficking “professionals” and do not specialize in a single product. They work only sporadically and drop their criminal activities once they have achieved their political or economic goals.

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drug production
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demand.*

EASTERN EUROPE AND SYNTHETIC DRUGS

In another striking development, the mid-1990s saw the countries of the former Soviet bloc enter the drug trade. The main target for these new producers is Western Europe, but there are many signs that they are also taking an interest in more distant markets such as North America, South Africa, and Australia.

To enter the drug trade, local criminal organizations can usually choose to cultivate drug plants or use a deserted chemical factory to make synthetic drugs. In Eastern Europe the latter choice is favored since the basic chemical ingredients are not subjected to close scrutiny; highly qualified and underpaid chemists are in plentiful supply; and drug users in the region (at least in urban areas) have little experience with natural drugs and therefore have no objection to replacements.

In the past few years it appears that synthetic drug production has begun on a large scale in Eastern Europe. German police estimate that between 20 and 25 percent of the amphetamines seized in the country in 1994 came from Poland, while Warsaw authorities estimate that Polish production supplies roughly 10 percent of the European market. University laboratories are suspected of producing drugs and huge numbers of couriers have been arrested at the German and Swedish borders. The Czech Republic vies with Poland for the title of second-largest European producer of psychotropic drugs (after the Netherlands), especially ephedrine, the main precursor chemical in the manufacture of methamphetamines. In 1994, the UN condemned an incident in which 50 tons of Czech ephedrine was sent to clandestine Mexican laboratories by way of Switzerland. The finished product was apparently intended for the United States market.

Various scandals since 1992 have shown that Latvia and Hungary are favored by, notably, Dutch and Scandinavian investors, who finance the pro-

duction of Ecstasy for European Union countries, as well as the manufacture of amphetamine derivatives in liquid, injectable form. In 1993 the International Narcotics Control Board expressed concern about the existence in Bulgaria of state enterprises manufacturing phenethylamines under the brand name Captagon for export without permission to Nigeria and the Arabian peninsula, by way of Turkey.

Among the former Soviet republics, Azerbaijan has specialized in manufacturing synthetic opiates (methadone, normorphine, 3-methylfentanyl) and methamphetamines in the cities of Gyandzha and Baku. In other parts of the former Soviet Union synthetic ephedrine is extracted from pharmaceutical ingredients and converted into ephedrone (an amphetamine derivative known in the United States as methcathinone). *Ephedra vulgaris*, which is cultivated in Azerbaijan, grows wild in Kyrgyzstan and Kazakhstan's Almaty region.

China also makes the most of its *Ephedra* resources. Clandestine methamphetamine laboratories, supplied with ephedrine appropriated from the pharmaceutical industry, have sprung up in Guangdong and Fujian provinces, for the moment almost exclusively for the Southeast Asian and former Soviet republic markets. In many cases it is the Taiwanese triads, whose members come from southern China, that are behind this production.

A NEW GLOBAL DIVIDE

At the start of the third millennium, synthetic drugs will probably have the dubious merit of standardizing the various divides in drug use: between the better-off and the disadvantaged in rich countries; and between developed countries and the developing world. As with other drugs, the only difference will lie in the quality of the product. But it is also likely that this large-scale drug abuse affecting tens of millions of individuals will merely coexist alongside the "classic" use of drugs derived from plants. ■

Can governments and law enforcement agencies learn something from drug traffickers to beat them at their own game? Phil Williams argues that both "have to think and act much more in network terms" to create informal transnational law enforcement networks based on trust. "While this approach does not guarantee success, it does at least conform to the first precept of effective strategy, which is to know your enemy and adjust your actions accordingly."

The Nature of Drug-Trafficking Networks

PHIL WILLIAMS

There are many reasons why the war on drugs has failed. One of the most important has been the inability of law enforcement efforts and military interdiction to degrade, disrupt, or destroy the networks trafficking drugs into the United States and Western Europe. This inability stems from a failure to understand fully the structure of these networks and their capacity to counter or circumvent law enforcement and military interdiction.

The predominant conception—especially in the case of cocaine trafficking—has been of large, hierarchical, vertically integrated organizations forming cartels and dominating the market. Government strategy has targeted the leaders of these organizations, the so-called kingpins. But although the leaderships of both the Medellín and Cali cartels have been "decapitated," it has had only a limited impact on the flow of drugs to the United States. Critics of supply reduction efforts claim that this is not surprising: interfering directly or indirectly with the supply of drugs serves merely to raise prices, which in turn makes the market more attractive and encourages new suppliers.

The argument here is not intended to challenge the idea that the market contains self-adjusting mechanisms of this kind. It does suggest that this does not tell the whole story. A large part of the supply reduction failure can be understood in terms of the organizational superiority of drug-trafficking

supply networks over the more traditional bureaucratic organizations that dominate interdiction and law enforcement efforts.

In recent years many business analysts and management consultants have emphasized that networks are far superior to traditional hierarchies in terms of organizational effectiveness, especially when it comes to innovation and teamwork. But what licit business appears to be discovering is something that has long been known to criminal organizations, which have been at the forefront in embracing network structures. This is hardly surprising since network structures are resistant to disruption and have a degree of resilience that other forms of organization lack. By using networks, transnational criminal enterprises and drug-trafficking organizations also enjoy enormous flexibility and are able to respond rapidly to new strategies or innovative techniques developed by law enforcement.

Ironically, this reliance on networks is something many observers of criminal organizations have generally ignored. There is a tendency in law enforcement circles and among some academic analysts to treat centralized hierarchies as synonymous with organized crime and to treat networks as disorganized crime. This is a mistake. A network is a highly sophisticated organizational form. David Ronfeldt of the RAND Corporation has argued that society has gone through a long evolutionary process that has been dominated successively by tribes, hierarchies, and markets. In each case the new form of organization did not replace the previous one but surpassed it in effectiveness and efficiency. Ronfeldt argues that society is now at a fourth stage in which networks are emerging as the predominant organi-

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zational form, a form that has significant advantages over more traditional bureaucratic hierarchies.¹

If this is the case, law enforcement and military agencies engaged in supply reduction need to recognize network characteristics and modify their strategy accordingly. While such an adjustment would not guarantee total success in the war on drugs, it could help level the playing field.

WHAT IS A NETWORK?

A network can be understood as a series of connected nodes. The nodes can be individuals, organizations, firms, or even computers, but the critical element is that there are significant linkages among them. Networks can vary in size, shape, membership, cohesion, and purpose. They can be large or small, local or global, cohesive or diffuse, centrally directed or highly decentralized, purposeful or directionless. A network can be narrowly focused on one goal or broadly oriented toward many goals, and its membership can be exclusive or encompassing. Networks are at once pervasive and intangible, everywhere and nowhere. More prosaically, they facilitate flows of information, knowledge, and communication as well as more tangible commodities. They operate in licit as well as illicit sectors of the economy and society. This enormous variability makes the network concept an elusive one; at the practical level, it also makes networks difficult to combat.

The purposes of a network can vary. Networks provide a means to achieve a variety of goals. In effect, they are neutral regarding the nature of the goals and can be used for positive or negative ends. This discussion, of course, is about networks that are highly functional in their own terms yet are inimical to society at large. In the case of drug-trafficking networks there is a common purpose, which is to ensure that drugs move from the source countries through a variety of transshipment points to the customers (with minimum disruption and loss from law enforcement activity) and that profits accrue, in varying degrees, to members of the network. The networks provide essential links

between suppliers and customers, and are critical to the effective functioning of the market.

Still there are many gaps in our understanding of drug-trafficking networks. The pattern of authority and direction in these networks is not always evident, the balance between competing and cooperating networks is not readily discernible, and the nature of information flows through them is often elusive. Nevertheless, it is clear that networks have several characteristics that make it difficult for law enforcement to combat them effectively.

CORE, PERIPHERY, AND GLOBALIZATION

A drug-trafficking network of any substantial size will have both a core and a periphery. The core is likely to consist of dense network connections among a group of individuals or small organizations that provide the steering mechanism and sense of direction for the entire network. The core members will also have bonding mechanisms that afford a high degree of trust and cohesion in their relationships. Bonding can be achieved through a variety of means—common ethnicity, tribal connections, family or lineage, common experience in youth gangs or prison—but is critical to the network core. The periphery is likely to be less dense, with somewhat looser relationships in which the bonding mechanisms are not as strong. Peripheries of networks exhibit what in the business literature has been termed the strength of weak relationships, which allows the network to operate far more extensively and with greater impact.² The links in the periphery of drug-trafficking networks also seem to correspond with what Francis Ianni has called criminal relationships: “links based upon a common core of activity in crime that keep people working together once they have joined in a network.”³

Two-tiered networks of this kind with both core and periphery have formidable internal defense mechanisms. While it is possible for law enforcement to infiltrate the periphery of the network, getting to the core is much more difficult partly because entry is dependent on a high level of trust that is based on bonding rather than functional utility. Moreover, there will usually be several nodes in the network that act as built-in insulators between core and periphery; these distance the core leaders from operations and impede law enforcement efforts to strike at the center of gravity as opposed to nibbling around the edges. The concomitant of this is that the periphery is where the risks from law enforcement are greatest. Ultimately this is not too serious a problem; if parts of the periphery are seri-

¹See David Ronfeldt, *Tribes, Institutions, Markets, Networks: A Framework about Societal Evolution* (Santa Monica, Calif.: RAND, 1996).

²Mark Granovetter, “The Strength of Weak Ties,” *American Journal of Sociology*, vol. 78 (1973). This idea is further developed in Ronald S. Burt, *Structural Holes: The Social Structure of Competition* (Cambridge, Mass.: Harvard University Press, 1992).

³Francis J. Ianni, *Black Mafia: Ethnic Succession in Organized Crime* (New York: Simon and Schuster, 1974), p. 281.

ously infiltrated or compromised, the core can simply discard them and recruit new members for the outer reaches of the network.

Networks display a remarkable capacity to flow around physical barriers and across legal or geographical boundaries. They in effect transcend borders, and are the perfect means of conducting business in a globalizing world. While not all network organizations are transnational in scope or ambition, there is a natural congruence between transnational or cross-border activities and network structures, irrespective of whether the networks operate exclusively in the legitimate sector or in supplying illicit goods and services. In this connection, the capacity of individual criminals or groups in one country to extend their network through linkages with their counterparts in other countries gives organized crime and drug trafficking a transnational character that makes it much more difficult to combat. Criminal networks have become borderless while law enforcement agencies are still constrained by national borders.

Their transnational character also places criminal networks in an excellent position to exploit the global financial or global trade system. Global trade has become so extensive that it is easy for criminal networks to embed and conceal illicit products among licit goods. Indeed, containerization is becoming an increasingly important mode of moving drugs from suppliers to consumers.

Similarly, the capacity of drug-trafficking networks to move the proceeds of their activities through multiple jurisdictions complicates law enforcement's efforts to follow the money trail with a high degree of confidence or in a timely manner. The synergy between social networks and technological or information networks is huge. The ability of transnational drug-trafficking networks to exploit globalization means that in the twenty-first century, national and even regional law enforcement efforts will become even more difficult.

Another important feature of networks is that they cross easily from the illicit to the licit sector. Drug-traffickers can enlarge their networks to include lawyers, doctors, and bankers to help them conceal and invest their profits. Criminal networks can readily extend their reach, co-opting individuals and organizations in ways that facilitate, enhance, or protect their activities. Co-option can

be achieved through bribery, coercion, and intimidation.

These links are dynamic rather than static and increase in importance and value over time. A network link between a low-level criminal and a junior official will become much more significant as the criminal becomes more powerful and the official becomes more senior. In these circumstances, the exchange relationship becomes much more substantial in terms of the favors done by the official and the payoffs provided by the criminal. The official is not part of the criminal enterprise per se, but is a vital node in the criminal network. As such, he or she provides important services to the network, including critical and timely intelligence about government and law enforcement activities. If enough people in important government positions are corrupted and co-opted in this manner, the network can almost certainly count on a high degree of protection against vigorous enforcement efforts.

The link between organized crime and corruption and the importance of corruption networks in facilitating criminal activities such as drug trafficking have been given scant attention. Yet in countries such as Mexico, Colombia, Nigeria, and Russia the linkages between criminals and officials have become one of the most serious impediments to achieving democratic governance and a free market economy. Collusive links also exist at lower levels, with law enforcement and customs officials accepting or imposing bribes in return for free passage of drugs. A good example of this is the Turkey-Iraq border where, according to one report, "drug trafficking is always taxed, but seldom checked and never stopped."⁴ Corruption networks, at the political and operational levels, are as insidious as they are pervasive and make both drug trafficking and organized crime increasingly difficult to counter.

INTELLIGENCE AND COUNTERINTELLIGENCE

Another important characteristic of networks is their efficiency and effectiveness in procuring information. In the case of drug-trafficking networks, the need is for counterintelligence that allows the networks to anticipate and negate law enforcement initiatives. The Cali drug-trafficking organization was especially adept at this and used an extensive network of taxi drivers and street vendors to gain intelligence about law enforcement activities in Cali. Extension of the network into government and law enforcement agencies is also important in this context, resulting in the corruption described earlier. While this is a phenomenon that occurs pri-

⁴Observatoire Geopolitique des Drogues (Geopolitical Drug Watch), *Annual Report 1995-1996*, September 1997 on the OGD home page (<http://www.ogd.org>).

marly in supplier or transshipment countries—and it has become a predominant feature of political life in Colombia and Mexico—criminal network infiltration of law enforcement also occurs in the United States. There have been numerous instances of street gang members joining the police, thereby obtaining ready access to early warning information that provides an opportunity for defensive actions against law enforcement. Members of the Gangster Disciples, the Latin Kings, and the Latin Lovers are known to have penetrated the Chicago police force, thereby augmenting their understanding of police methods and their capacity to detect undercover agents.

Accompanying the efficient acquisition and dissemination of certain kinds of information is the capacity to contain and protect other types of information. Drug-trafficking networks often operate in a cellular fashion in which information is compartmentalized or shared only on a need-to-know basis. As a result, arrests tend to be limited to those on the periphery, who do not yield usable connections to those in the core. Moreover, drug-trafficking networks have tried to increase the reluctance of their members to pass information to law enforcement authorities by their readiness to harm the families of informants and by their willingness to support the families of those who remain loyal and resist blandishments such as offers of leniency in return for information.

In addition to this, many networks have two characteristics that make them hard to penetrate: ethnicity and language. Moreover, many of the networks use languages or dialects unfamiliar to law enforcement personnel in the host countries. Consequently, electronic surveillance efforts directed against, for example, Chinese or Nigerian drug-trafficking networks are either neutralized or rendered much more difficult. Furthermore, ethnic drug-trafficking networks do not exist in a vacuum but instead operate in and from ethnic communities that provide concealment and protection as well as an important source of new recruits. Some networks, such as Chinese drug-trafficking groups, are based largely on ethnicity. They are global in scope and operate according to the principle of *guanxi* (notions of reciprocal obligation), which can span generations and continents and provides a basis for trust and cooperation. Such networks are especially difficult for law enforcement to infiltrate. In short,

*The network is the ideal
form for maintaining
organizational integrity
in an inhospitable
environment.*

drug-trafficking networks have a significant capacity to protect their information and to defend themselves against law enforcement initiatives.

Networks are also able to expand or contract as circumstances demand. Their capacity for rapid reconfiguration enables them to respond quickly to law enforcement and interdiction efforts by relocating their activities. Networks have some fixed assets, but are able to move their operations in ways that exploit the paths of least resistance. Most Colombian cocaine was initially transported to the United States through the Caribbean and Florida. When the interdiction effort in this region was increased in the late 1980s and early 1990s, many of the trafficking networks moved to Mexico and the southwestern border of the United States. More recently, as law enforcement and military interdiction efforts have increased on that border, there has been a return to Florida.

Similarly, on a global level, during the 1990s much greater use has been made of African states as transshipment points for drugs destined for the United States and Europe. According to a 1997 study by the Observatoire Geopolitique des Drogues (Geopolitical Drug Watch) in Paris, almost 30 percent of heroin shipments seized in Europe or the United States passed through Africa, which is an easy place for traffickers to do business. As the group has noted, "There are plenty of under-policed air or sea ports—like Mombasa (Kenya), Dar es Salaam (Tanzania) and Maputo (Mozambique)—and civil wars in countries like Angola, Somalia, and Liberia mean porous borders—where drugs can be shipped or traded with impunity."

Closely related to this, networks can respond to law enforcement profiles of network participants by recruiting new network members to act as couriers. Nigerian drug traffickers in particular increasingly face the profiling problem: because many Nigerians are known to be heavily involved in the trafficking of cocaine and heroin, they are more likely to be stopped at airports and other points of entry and searched by customs inspectors. Nigerian traffickers have dealt with this partly by recruiting network members who do not fit the profile and therefore tend to make more successful couriers. This extension of the network typically involves recruitment of middle-aged white women, but in one case (in June 1996) included a group of American sailors with the Sixth Fleet. In other cases, Nigerian men

"As long as America's seemingly insatiable appetite for imported psychoactive substances persists, Mexico's close proximity to the United States market assures that the logic of narco-corruption will remain entrenched" in the country's political system.

The Political Economy of Narco-Corruption in Mexico

PETER ANDREAS

The corrupting influence of the illicit drug trade is widely perceived as an especially extreme example of the weakness of the state in many developing countries. Although there is obviously much truth in this view, the Mexican experience of recent years reveals a more complex and negotiated relationship between the business of drugs and the business of policing drugs.

In his final state of the union speech on November 1, 1994, President Carlos Salinas de Gortari declared that "Mexico has changed intensely." Although he lauded the "establishment of a new relationship between the state and society" and Mexico's achievement of "an advantageous position in the new international reality," Salinas failed to mention that part of these changes has been Mexico's rising place in the illegal drug export business. Indeed, although the North American Free Trade Agreement (NAFTA)—the crowning achievement of the Salinas administration—does not officially include them, drug exports are an integral part of Mexico's comparative advantage in an expanding regional trade relationship.

While Mexico has long been enmeshed in the drug trade, its role has grown significantly in the 1990s. According to Eduardo Valle, who resigned as personal adviser to the Mexican attorney general in May 1994, Mexico's leading drug traffickers have become "driving forces, pillars even, of our economic growth." The United States State Department

estimates that as much as 70 percent of the South American cocaine bound for the United States market enters through Mexico; Mexico also supplies between 20 and 30 percent of the heroin consumed in the United States, and up to 80 percent of the imported marijuana. (Of course, any official drug statistics represent at best rough estimates.) In addition, Mexican traffickers now dominate much of the American market for methamphetamines.

The United States Drug Enforcement Administration (DEA) believes that Mexico earns more than \$7 billion a year from the drug trade, while Mexico's prosecutor general's office calculates that drug traffickers operating in Mexico accumulated revenues of about \$30 billion in 1994. The drug business is a significant employer: there are roughly 200,000 people earning a living growing drug crops (the Mexican attorney general's office calculates that the figure may be as high as 300,000). This number does not include the thousands of other jobs directly or indirectly generated by the drug trade in areas such as transportation, security, banking, and communications. This underground exit option has been especially important during a time of falling wages and limited employment prospects in the formal economy.

Ironically, Mexico's prominence in the drug trade is partly an unintended by-product of United States policy: American law enforcement pressure on cocaine shipments through the Caribbean and south Florida in the 1980s helped make Mexico the primary transshipment point for Colombian cocaine bound for the American market. While this expensive interdiction campaign provided political rewards for United States officials eager to show progress in the anti-drug effort, the effect of such a Maginot Line-style enforcement strategy was to cre-

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ate incentives for Colombian traffickers to shift to Mexican smuggling routes. Thus, while the percentage of cocaine entering the American market from Mexico was negligible in the early 1980s, by the early 1990s Mexico was the route of choice for the majority of Colombian cocaine shipments. Perhaps not surprisingly, the Bush and Clinton administrations conveniently downplayed the profound consequences of this geographic shift for Mexico in order to assure the smooth negotiation and passage of NAFTA.

As drug trafficking in Mexico has expanded in the past decade, so too has Mexican drug enforcement. Partly in an effort to pacify its northern neighbor, Mexico tripled its federal anti-drug budget between 1987 and 1989, and tripled it again in the 1990s. The growth of Mexico's anti-drug program is particularly striking given that it has occurred during a time of deep cuts in overall government spending: drug control stands out as one of the few areas where state intervention in the economy is increasing. Drug control now dominates the Mexican criminal justice system, with the majority of the federal budget for the administration of justice devoted to the effort. The "Mexican attorney general's office," notes Mexican scholar Maria Celia Toro, "has basically become an anti-drug law enforcement agency."

President Miguel de la Madrid Hurtado officially declared drug trafficking a national security threat in early 1988. And this declaration was reinforced by the administration of Carlos Salinas. President Ernesto Zedillo Ponce de León has gone even further, repeatedly declaring that drug trafficking is the country's number one security threat. Given that invoking national security is rare in Mexican political discourse, these calls mark a significant departure from the past.

For Salinas, classifying drugs as a national security issue was both a rhetorical move to improve relations with the United States and an attempt to provide the rationale for a revitalized national security apparatus. Salinas created a national security council and a new intelligence agency, set up a unit in the attorney general's office for drug enforcement, and developed new anti-drug units in the federal judicial police. He also reinforced the anti-drug role of the military, designating a new army staff section that focused on drug control. By the late 1980s about one-third of the military's budget was devoted to the anti-drug effort, and some 25,000 Mexican soldiers were involved in drug control operations—compared with only 5,000 in the 1970s.

As a result of its anti-drug role, the military has become the "supreme authority, or in some cases the only authority" in parts of some states, such as Oaxaca, Sinaloa, Jalisco, and Guerrero, according to Mexico watcher Roderic Ai Camp. While the military has traditionally concentrated on crop eradication, its anti-drug mission has significantly expanded in recent years. "In the past, there was always a reluctance to allow the military to play a stronger role," notes one United States official. "But with the Zedillo administration, that mind-set has dissolved." As a consequence, military ties between the United States and Mexico have deepened in recent years through military assistance and training for anti-drug programs.

THE LOGIC OF NARCO-CORRUPTION

Increased Mexican drug enforcement has generated a growing number of arrests and seizures and a rise in crop eradication levels (Mexico boasts that it destroys more illicit crops than any country in the world). These measures of policy progress are highlighted in the annual political ritual of the certification process, in which the United States determines whether Mexico and other drug-exporting countries are fully cooperating with American anti-drug objectives. While these "body count" statistics are politically necessary to maintain good relations with the United States and avoid the stigma of being "decertified," the reality is that the drug trade has not only survived but has thrived in the face of intensified Mexican drug control efforts. United States and Mexican officials alike place much of the blame on the corrupting power of the drug trade. Yet corruption is a two-way relationship: it reflects the influence of drug smuggling over the state and the state's influence over drug smuggling—and greater drug control capacity has arguably only deepened this influence. Corruption involves not only the penetration of the state but also penetration by the state. Drug smugglers must purchase an essential service monopolized by government officials: the non-enforcement of the law. Those in charge of enforcement must be bribed because they cannot be entirely bullied or bypassed.

The extent of drug-related corruption in Mexico is revealed by the series of high-profile murders and scandals in recent years (including the arrest of Raúl Salinas, the brother of Carlos Salinas) that have profoundly shaken the political system. The primary purpose here is not to focus on the mystery and intrigue that necessarily surround these controversial events (the complex and often specula-

tive details about who did what, when, and why), but rather to try to make sense of the underlying logic of drug corruption. Perhaps more than any other state regulatory activity, drug enforcement provides extraordinary incentives to use public authority for private gain. And these incentives only increase under conditions of fiscal austerity, economic uncertainty, and low wages.

At its core, drug corruption is a cost of doing business. While corruption in the form of bribes and payoffs has long been a part of the relationship between business and the state, it plays a more vital role in the case of drug smuggling because of the illicit nature of the activity. The enormous profits from drug smuggling (inflated by the drug's criminalized status) provide the financial means to corrupt. In the case of Mexico, a study by the Autonomous National University in Mexico City has found that cocaine traffickers spend as much as \$500 million a year on bribery, which is more than double the annual budget of the Mexican attorney general's office. (These calculations are derived from a widely used model that assumes \$1,000 in payoffs for each kilogram of smuggled cocaine.)

TAXING THE DRUG TRADE

A useful way to make sense of drug corruption is to view the act of corruption as the equivalent of paying a tax. Levels of corruption—the tax rate—often depend on the intensity of the drug enforcement effort. As enforcement increases, so does the drug smuggler's need to corrupt those who are doing the enforcing (the tax collectors). As Gianluca Fiorentini and Sam Peltzman suggest in their 1995 book *The Economics of Organized Crime*, the greater the deterrent effort, "the more [it creates] incentives to invest in corruption and manipulation of the deterrence agencies themselves." This general observation is certainly applicable to the Mexican drug control experience. Even though increased drug enforcement capacity has failed to significantly deter the drug trade, it has increased the capacity to tax the trade in the form of corruption.

Smugglers who pay the "corruption tax" are less pressured by "tax collectors" than those who do not. One senior Mexican official described the process this way: "[Drug enforcement agents] receive money from one group of traffickers and they cannot act against people from that group. But they have their hands free to arrest people from other groups." This type of selective enforcement allows officials to do their job—seizing drugs and arrest-

ing smugglers—while also collecting taxes from the drug trade. This dynamic favors large, well-connected smuggling organizations. Those smugglers with the greatest resources and contacts can most afford the corruption tax and pay it to the most appropriate tax collectors, while the smaller smuggling entrepreneurs are treated as tax evaders. Not surprisingly, it is the small-time smugglers who are most often "audited" and penalized.

Taxing the drug trade sometimes takes the form of seizing a drug shipment and then reselling all or part of it. Thus, confiscated drugs often disappear while in custody. In such cases, those charged with policing smuggling actually become smugglers themselves. This reflects the larger difficulty in Mexico of distinguishing between the police and the criminals. An internal report from the Interior Ministry estimates that by 1995 there were about 900 armed criminal bands in the country—of which more than 50 percent were made up of current or former law enforcement agents.

Police often double as drug enforcers and as drug-smuggling protectors. When Sinaloa drug cartel leader Hector "El Guerrero" Palma was arrested by the military in June 1995, he was at the home of the local police commander; the majority of the armed men protecting him were federal judicial police. Subsequent investigations revealed that Palma had bought off the senior federal judicial police commanders in Guadalajara with several \$40 million payments.

The lucrative payoffs from the drug trade mean that there is intense competition within and between law enforcement agencies—for example, between local and federal police, who sometimes end up shooting at each other. Violent conflicts often erupt between police operating as law enforcers and police operating as law breakers. In one incident on March 3, 1994, members of the federal judicial police came under fire from the judicial police of Baja California as they were attempting a drug bust.

There is also enormous competition within law enforcement agencies to be assigned to key posts along major smuggling corridors. Eduardo Valle claims that while he was in office, the top Mexican drug enforcement posts were auctioned off to the highest bidder. The price of a law enforcement position, he said, depends on changes in drug smuggling routes: "In Coahuila, for example, there are four or five entrances into the United States. If one crossing point is closed, the price of the federal police chief's position in that area goes down

because the post is irrelevant, but the price of the police chief positions in other places goes up. This is openly discussed inside the federal police."

The case of Mario Ruiz Massieu, Salinas's top anti-drug prosecutor between March and November 1994, provides a glimpse into how the system of drug corruption can be organized. During his tenure in office, cocaine seizures plummeted. Federal prosecutors and police commanders allegedly paid Ruiz Massieu as much as \$1 million to be assigned to profitable posts along the border and in other major drug areas. Officials regularly brought him suitcases with up to \$150,000 in kickbacks. One official familiar with Ruiz Massieu's operation described it as a "franchising system." Ruiz Massieu apparently inherited rather than created this system of selling lucrative posts and receiving large kickbacks.

Payoffs are made at each level of enforcement—the higher the position, the higher the payoff. For example, a notebook recovered from the smuggling organization run by Juan García Abrego included this list of payoffs: \$1 million to the national commander of Mexico's federal judicial police; \$500,000 to the forces' operations chief; \$100,000 to federal police commander in the city of Matamoros. Abrego's cousin, Francisco Pérez, testified in a federal trial in Texas in 1994 that he had delivered \$500,000 to Javier Coello, Mexico's deputy attorney general, between 1988 and 1991. Coello was eventually dismissed but never charged.

The particular shape and form of drug corruption in some ways mirrors the structure and character of the Mexican state. As Peter Lupsha argues, "because of the institutionalized authoritarian clientelism and centralization built into the national dominance of the Institutional Revolutionary Party or PRI, transnational groups like the Colombians must work with and through Mexican organized crime groups who have corruptive and collusive support of national institutions. . . for protection."¹

In other words, Colombian traffickers must oper-

ate in Mexico on Mexican terms. In practice this means that the Colombians have become increasingly reliant on their Mexican business partners, who have the necessary political connections and long-established trafficking networks. Consequently, the power and wealth of Mexican traffickers has dramatically increased in a relatively short period of time. Mexico's comparative advantage in the cocaine trade is based on its access to the United States market—and such access has only grown as economic barriers between Mexico and the United States have fallen.² Mexican traffickers and their protectors within the state apparatus collect a sizable fee from their Colombian counterparts for entry into the North American free trade zone.

As more cocaine is shipped through Mexico to the United States market by way of legitimate commercial channels, drug payoffs reach beyond law enforcement to other regulatory agencies. The Mexican Office of Communication and Transportation, Lupsha notes in his article, "is as critical to the evolution of the Cali cartel's drug transportation system as it is to NAFTA. Its portfolio includes the administration of airports, seaports, highways, communications lines, and the Federal Highway Police." Lupsha contends that "Cali's new transportation methodology . . . requires commercial airports, business fronts, the use of ports, free trade zones, container facilities, trailer trucking firms, and railroads. In short, it requires access, information, official forms, and seals that only an Office of Communication and Transportation can provide."

Drug corruption in Mexico thus reflects a paradox: the state's drug enforcement effort is undermined by the corrupting influence of the drug trade, yet the drug trade cannot survive without the protection of compromised elements within the state. Lupsha goes so far as to argue that because of the centralized authoritarian nature of the Mexican political system, drug traffickers must operate *con permiso* (with permission). The trafficker must go beyond simply sharing drug profits and is "expected to assist the police and the political system by providing grist for the judicial mill, as well as public relations materials to give U.S. drug enforcers. Thus, the trafficker could gain protection and warning information; the police could gain credit, praise, and promotions; the political system gained campaign monies and control; and the U.S., statistics, to justify a job well done."³

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¹Peter Lupsha, "Transnational Narco-Corruption and Narco Investment: A Focus on Mexico," *Transnational Organized Crime*, vol. 1, no. 1 (Spring 1995), p.85

²See Peter Andreas, "U.S.-Mexico: Open Markets, Closed Border," *Foreign Policy*, Summer 1996.

³Peter Lupsha, "Drug Lords and Narco-Corruption: The Players Change but the Game Continues," in Alfred McCoy and Alan Block, eds., *War on Drugs* (Boulder, Colo.: Westview, 1992), p.182.

Lupsha notes that this clandestine relationship between law enforcers and law evaders is unstable, given the frequent changes in government leadership, the transfer or promotion of key officials, and the often violent competition between smuggling organizations over trafficking routes. This instability is evident in the rise and demise of one of Mexico's leading traffickers, Juan García Abrego. Abrego's trafficking operations, which had flourished in the Salinas years, lost high-level protection after President Zedillo entered office, and soon also lost market share to competitors based in Tijuana and Juárez. Having fallen out of favor, Abrego became a hunted fugitive. By the time he was arrested in early 1996 and extradited to the United States, his business was in shambles. Nevertheless, Abrego's capture was applauded by the United States and Mexico as a sign of official resolve in the anti-drug campaign.

THE STATE RESPONSE

When drug corruption scandals have erupted in Mexico, the official response has been to fire or transfer individual officers and at times even disband entire agencies and create new ones. A report by the attorney general's office indicates that over 400 agents of the federal judicial police (more than 10 percent of total personnel) were fired or suspended between mid-1992 and mid-1995 on drug-related charges. On August 14, 1996, 737 federal law enforcement officers were dismissed, including Horacio Brunt, the celebrated police commander who had captured Abrego. An additional 270 employees of the attorney general's office were fired between December 1996 and August 1997. Such mass firings, however, only begin to dent the problem: in 1996, the attorney general estimated that "70 to 80 percent" of the judicial police force was corrupt. Moreover, many fired police officers have simply been rehired in other regions of the country and hundreds of other officers have been reinstated after challenging their dismissals in court.

Although the Zedillo administration has demonstrated a new resolve, past patterns suggest a lack of sustained high-level political commitment to confronting corruption. Salinas, for example, appointed Enrique Álvarez del Castillo, who had been the governor of the state of Jalisco, attorney general. Under his governorship the drug trade had thrived and traffickers had operated with little to fear from the authorities. Salinas also tried to

appoint Miguel Nazar Hurtado Mexico City police intelligence chief—despite the fact that he had been indicted in 1982 by a United States grand jury in San Diego on car theft and conspiracy charges.

Institutionalized corruption within Mexican law enforcement has generated growing pressures to turn to the military to take on more drug control tasks. But while militarization is interpreted by American officials as a sign of Mexico's heightened resolve to fight drug trafficking, a greater military role in drug control (and thus proximity to drug smugglers) is also likely to generate greater corruption in the military. In late 1991, in one of the most notorious cases of military corruption, ten federal judicial police agents attempted to apprehend smugglers delivering 800 pounds of cocaine from a small airplane on a remote airstrip in the state of Veracruz. The bust was interrupted when members of the Mexican army opened fire on the agents, killing seven of them. The traffickers escaped. A videotape of the incident by a United States Customs surveillance flight overhead indicated that the Mexican soldiers were protecting the traffickers. According to Mexican press reports at the time, this was just one of a number of incidents in which the military thwarted a police

anti-drug operation.

A series of high-profile drug-related scandals in 1997 further exposed the depth of the corruption problem in the Mexican military. In February the head of the federal anti-drug agency, General Jesús Gutiérrez Rebollo, was arrested on charges of working for Juárez cartel leader Amado Carrillo Fuentes. The agency was quickly disbanded and is now slowly being rebuilt. Then in March, General Alfredo Navarro Lara was arrested for attempting to bribe the head federal justice official in Baja California on behalf of the Arellano Félix brothers, the leaders of the Tijuana drug cartel. A recent report by the United States Office of National Drug Control Policy notes that 34 senior military officers have been targeted for disciplinary action because of drug-related corruption. In the face of such high-level military corruption, Zedillo has remained firmly committed to the militarization of law enforcement, putting the military in charge of federal police functions in at least eight states, as well as in Mexico City.

Meanwhile, the incentive for the PRI-dominated political system to turn to illicit revenue may be

The incentive for the PRI-dominated political system to turn to illicit revenue may be increasing as other sources of funding dry up.

increasing as other sources of funding dry up. As Nora Lustig observed in the spring 1996 issue of the *Brookings Review*, "One facet of the PRI crisis is financial. Long dependent on contributions from (or raised through) the government, the party is ill-prepared to find alternatives." Some of the more militant officials may be tempted "to turn to 'donations' from unsavory sources, such as narco-traffickers." Concerns about economic stability may also inhibit major anticorruption initiatives. "Unfortunately, the rule of law is to a certain extent hostage to Mexico's financial vulnerability," Lustig explains. "The nation's leaders can probably not afford to uncover the questionable or illegal activities [engaged in] by prominent members of the political and business elites. The attempt to change the rules of the game too swiftly and prosecute people for past wrongdoings could trigger a wave of capital outflows large enough to threaten the fragile recovery."

FROM "CRISIS CORRUPTION" TO "NORMAL CORRUPTION"

Clues as to how the dynamics of corruption will eventually play out in Mexico's most important illegal export sector may be found by looking at the past dynamics of corruption in Mexico's most important legal export sector: oil. Drug corruption in Mexico may be a particularly striking example of "crisis corruption," in which there are "many suppliers trading in extraordinary stakes."⁴ This highly disruptive form of corruption is not unfamiliar to Mexico. In the late 1970s Mexico experienced a rapid influx of oil revenues that, while not generating the violence associated with the drug trade, nevertheless shares some similarities with the more recent influx of drug profits. Michael Johnston notes that "key figures in PEMEX (the state oil corporation), the Oil Workers Union, and the dominant political party (PRI) had long enjoyed a number of politically significant and mutually profitable corrupt arrangements. But when oil revenues began to grow rapidly in 1977, this corruption became particularly flagrant and disruptive. Old 'arrangements' in the oil industry gave way to intense competition over shares of the new wealth.

The new abuses became matters of considerable controversy, and PEMEX, PRI, and union figures came under political attack from several quarters."⁵

By 1982, when the oil boom went bust, "It was evident that the nation had been 'sacked' by more than one set of actors. . . . According to the government's own admission, the oil boom had whetted unsavory appetites in the nation and had spawned a substantial increase in the level of corruption throughout the nation."⁶ The influx of oil revenue had, Johnston notes, "thus placed extraordinary resources in many hands, transforming formerly integrative forms of corruption into disintegrative crisis corruption."

This may describe the current Mexican situation in relation to drug profits. If Mexico's earlier oil boom experience is any indication, today's drug-related crisis corruption will not necessarily produce political disintegration. Crisis corruption can be resolved in a number of ways. For example, Johnston explains that a "leveling off in the influx of resources might make the stakes of corruption more predictable, and thus less extraordinary, with improved chances of repeated profits over longer periods of time serving to moderate prices and to regulate terms of exchange. Mexico's oil industry had gone through earlier phases of rapid growth and flagrant corruption, reverting to more accustomed forms of corruption during periods of more stable revenues." Alternatively, he notes that "a few suppliers of corrupt stakes might become sufficiently powerful to impose a degree of order upon corrupt processes, perhaps producing one or more systems of cronyism or patronage." Applied to the drug trade in Mexico, either scenario suggests that the relationship between drug smuggling and the state may eventually settle down, resulting in a more stable, predictable, and less violent business environment.

Perhaps the best news for Mexico is that there are preliminary signs that Colombian cocaine traffickers are starting to reduce their reliance on Mexican smuggling routes by redeveloping routes through the Caribbean and south Florida. It seems that the high cost of moving their product through Mexico is scaring at least some of the illicit business away. A greater diversification of smuggling routes may help to reduce corruption in Mexico. Yet as long as America's seemingly insatiable appetite for imported psychoactive substances persists, Mexico's close proximity to the United States market assures that the logic of narco-corruption will remain entrenched. ■

⁴Michael Johnston, "The Political Consequences of Corruption," *Comparative Politics*, vol. 18, no. 4 (July 1986), p. 472.

⁵*Ibid.*, p. 473.

⁶Judith Gentleman, *Mexican Oil and Dependent Development* (New York: Peter Lang, 1984), quoted in Johnston, *op. cit.*, p. 473.

"Although United States international narcotics control efforts have borne little fruit to date, Congress and the Clinton administration have dramatically increased security assistance to Latin America in the last two years in the name of fighting the war on drugs. . . The costs to democratization and human rights throughout the region will no doubt continue to be high."

The Militarization of the Drug War in Latin America

PETER ZIRNITE

Despite the end of the cold war and the transitions toward more democratic societies in Latin America, the United States has launched a number of initiatives that strengthen the power of Latin American security forces, increase the resources available to them, and expand their role within society—precisely when struggling civilian elected governments are striving to keep them in check. Rather than encouraging Latin American militaries to limit their role to the defense of national borders, Washington has instead provided the training, resources, and doctrinal justification for militaries to move into the business of building roads and schools, offering veterinary and child inoculation services, and protecting the environment. Of greatest concern, however, is America's insistence that the region's armed forces—including the United States military itself—play a significant role in domestic counternarcotics operations, a law enforcement function reserved in most democracies for civilian police.

Although United States international narcotics control efforts have borne little fruit to date, Congress and the Clinton administration have dramatically increased security assistance to Latin America in the last two years in the name of fighting the war on drugs. For 1997 (all date references are to fiscal years, unless otherwise noted), the budget for international drug control programs was \$213 million, double the previous year's figure. In addition, the administration approved a package of

\$112 million in military equipment and training for Colombia, Venezuela, Peru, Mexico, and select Caribbean countries for antinarcotics purposes. Through the provision of foreign aid, military equipment, and training, American antinarcotics support for the region's military and police forces, primarily in the Andean region and Mexico, more than tripled from 1996 to 1997.

While there is little reason to believe that the militarization of the drug war will produce results in terms of controlling illicit drugs, its impact could be devastating in countries where the drug war is being waged. In the Andean region and Mexico, the United States is forging ever closer ties with abusive police and military forces. In Peru and Colombia, Washington is providing assistance to intelligence services and militaries that are the worst human rights violators in the hemisphere. Moreover, through its drug program, Washington is reinforcing a trend in Latin America of ceding more and more civilian responsibilities to militaries, which themselves present the greatest threat to democracy in the region. In short, in country after country in Latin America, the United States war on drugs undermines efforts to promote human rights, democracy, and regional security.

Among the 50 or so government agencies involved in drug control efforts, the United States military is on the front line of the war on drugs in Latin America. The military's anti-drug plans call for it to provide the intelligence, strategic planning, resources, and training needed for the region's security forces to carry out antinarcotics efforts. In addition, the military is in charge of costly interdiction efforts and participates in domestic law enforcement attempts to stem the flow of illegal drugs into the

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United States. In 1997 alone, the Defense Department's budget allocated nearly \$1 billion to drug control efforts.

Yet more than eight years after the drug war supplanted the cold war as the central United States military mission in the hemisphere—and after the expenditure of billions of dollars, the deployment of thousands of personnel and much sophisticated equipment, and the provision of massive assistance to its Latin American allies—the Defense Department has made little headway against its new foe. While the militarization of anti-drug operations may have produced occasional tactical victories—such as the destruction of cocaine-processing labs, which are quickly replaced by facilities in more remote locations—even its most ardent supporters admit it has done little, if anything, to stanch the flow of cocaine into the United States.

AIDING SECURITY FORCES. . .

The primary tool for United States forces waging the drug war abroad is "security assistance," which can include economic assistance, training, intelligence support, equipment transfer and maintenance support, and advice. International counternarcotics programs are one of the few areas of growth in United States foreign assistance, and an increasing percentage of this aid is earmarked for Latin America.

According to the State Department's Bureau of International Narcotics and Law Enforcement Affairs (the INL, which coordinates all drug-related United States aid), of the \$213 million budgeted for in-country narcotics programs in 1997, \$116.2 million went directly to Latin America, an increase of more than 40 percent over 1996. By comparison, the rest of the world—Asia, Africa, and Europe—was slated to receive only \$18.9 million. The remaining funds were for regional programs, which were primarily oriented toward Latin America. For 1998, of the \$230 million requested for international drug control programs, INL has earmarked \$132.7 million for Latin America.

Traditionally, foreign security assistance has taken the form of Foreign Military Financing and Economic Support Fund grants under the 1961 Foreign Assistance Act, but the end of the cold war and concerns about the federal budget deficit resulted in reduced appropriations for these grants. To fill the void, Washington has turned to surplus United States weapons stocks, using the Defense Department's Excess Defense Articles (EDA) program, which was established in 1976. Although EDA

transfers are limited to \$10 million per country per year, congressional investigators have found that the Defense Department routinely underestimates the original acquisition value of the equipment on which this limit is based.

At the same time, millions of dollars in military equipment, services, and training are pumped directly into the region for counternarcotics purposes by the president through use of his special "drawdown" authority. Section 506 of the Foreign Assistance Act gives the president the power to transfer up to \$150 million of excess United States defense articles annually to meet "unforeseen" emergencies that cannot be met through other aid channels if he determines that doing so is "in the national interest of the United States." On September 30, 1996, President Bill Clinton determined it would be in the United States national interest to draw down up to \$112 million in articles, services, and military education and training from Defense Department inventories to provide antinarcotics assistance to Peru, Colombia, Venezuela, Mexico, and the seven countries of the Eastern Caribbean Regional Security System (a group established in the early 1980s to address defense and law enforcement concerns, including drug trafficking, on a multilateral basis).

. . . AND TRAINING THEM

These various forms of security assistance are accompanied by training and other forms of support provided directly by the United States military. A key element are Tactical Analysis Teams (TATs), which are made up of a small number of United States Special Forces and military intelligence personnel. The teams pull together intelligence from human and technical sources to select targets and plan operations to be carried out by host nation military and police forces and United States Drug Enforcement Administration (DEA) agents. While TATs determine collection priorities and act as data managers, they do not actually conduct intelligence collection operations. These activities, like the counter-drug operations they support, are carried out by the DEA and other United States and host nation agencies.

After the first two TATs, established in Peru and Bolivia in 1989, proved successful in the eyes of United States military planners, their number rapidly expanded. In mid-February 1997, the number stood at 14, with three countries hosting two teams—Colombia, Ecuador, and Brazil—and single teams in eight other countries—Belize, Guatemala,

El Salvador, Honduras, Panama, Venezuela, Peru, and Bolivia.

As the TATs evolved, they began to integrate tactical operations into an overall strategy to attack drug trafficking organizations, with the goal of establishing evidentiary links between raided cocaine labs and other components of the organization. "The optimum scenario," according to the Office of the Department of Defense Coordinator for Drug Enforcement Policy and Support, "is a 'full court press' on all trafficking organization members and critical nodes to completely disrupt or destroy their production and shipping capabilities." The host nation's ability to execute this highly desired "full court press" is being enhanced by Special Forces trainers who, as David Isenberg at the Center for Defense Information has noted, provide in-country instruction in "drug interdiction and search-and-destroy techniques."

These training teams typically are composed of six Navy Seal and Army Green Beret officers who spend about three weeks in a country providing instruction, but they can be as small as a single officer or as large as an entire platoon (20 to 30 people). A vital part of their instruction, United States officials stress, is human rights training. However, training is provided regardless of the human rights record and political will for human rights-related reforms exhibited by recipient forces. For 1997, SOUTHCOM (Southern Command, the military command that is the center of United States anti-drug efforts) planned 37 training deployments—11 to Ecuador, 9 to Venezuela, 6 each to Peru and Bolivia, and 5 to Colombia—that were to involve 633 personnel.

In-country training is supplemented by instruction at United States military facilities. Among the United States-based facilities used for counternarcotics instruction is the School of the Americas (SOA) at Fort Benning, Georgia, which was rocked by revelations in 1996 that as recently as 1991 it used manuals advocating torture and murder of political opponents. The SOA currently offers officers an 11-week course that provides instruction in planning, leading, and executing drug interdiction operations, including weapons, infiltration, and surveillance techniques; patrolling; demolition; and close-quarters combat.

Counternarcotics training, whether conducted in-country or at United States facilities, is viewed

by many Defense Department officials as an important opportunity to foster closer ties with the region's armed forces, one of the key goals of the department's post-cold war strategy for the hemisphere. A case in point is the training currently being provided to Mexican troops, who were called in to fill the void created in 1996 by the dismissal of some 800 federal police officers for ethical breaches. Before the United States began providing counter-drug training to Mexico's military, "essentially we had no relations with them," one Defense Department official said. "The idea of building military-to-military relations is very important."

United States officials insist that corruption among the Mexican police makes a military role in the drug war necessary. Yet in bringing in the mili-

tary, the United States may be setting in motion a trend that will be difficult if not impossible to reverse: increased Mexican military involvement in domestic political matters. Mexico's military now commands police forces in two-thirds of the states, looking for drug traffickers, patrolling Mexico City streets, directing traffic, and combating petty crime. By encouraging the militarization of Mexican society in the interest of combating narcotics, the United States undermines its own

long-term goal of a stable, civilian, democratic regime in Mexico. Nor is there any evidence that the Mexican military is less susceptible to corruption than the police; it is, however, less transparent and accountable, making corruption even more difficult to root out.

Human rights groups point to a number of other problems inherent in United States military counternarcotics training programs. The jungle warfare-type training that the United States military is providing to Latin American security forces is not well suited for drug control efforts, which should be oriented toward sound investigations and criminal prosecutions. Moreover, the law enforcement training that does take place would be more appropriately carried out by United States law enforcement agencies. It is deeply disturbing that the United States military is training local forces in surveillance tactics to be used on their own citizens, given that such practices have been used in the past to systematically violate basic human rights. Moreover, the United States is aiding and training troops within whose ranks are some of the worst human rights violators in the hemisphere without first

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insisting on fundamental reforms to ensure significant reductions in human rights violations and effective prosecution of those responsible.

Also of deep concern, by the early 1990s—with the authority, equipment, and funding to plan operations, bolster host nation forces, and transport these personnel to the front—United States military forces appeared to be perilously close to a direct combat role in the war against the South American drug cartels and, at least indirectly, insurgencies.

THE PENTAGON'S MEAT AND POTATOES

The flow of United States military personnel and equipment to the Andean region has drawn considerable attention, but it is a mere trickle compared to the resources the military has spent on its congressionally mandated role as the lead United States agency for the detection and monitoring of air and maritime shipments of illegal drugs into the United States.

Beginning at \$212 million in 1989, the Defense Department's detection and monitoring budget mushroomed to more than \$950 million in 1992, the peak year for spending on this program. During that same period, the military's overall spending on counternarcotics jumped from \$501.6 million to \$1.14 billion. Spending on surveillance grew rapidly, as the General Accounting Office (GAO) pointed out in a September 1993 report, "despite the lack of clear-cut objectives." As a result, the eventual cost of the program grew "out of proportion to the benefits it provide[d]."

The military's inventory of radar-equipped ships and aircraft was a major reason for giving it the lead detection and monitoring role, but it soon discovered that many of these assets were intrinsically ineffective in combating the drug-smuggling threat. As the GAO pointed out in a scathing 1993 report, "Sensors designed to detect large supersonic aircraft and nuclear-powered submarines are less proficient against low-flying planes and small wooden boats." Agency investigators reported that these problems were exacerbated by the "absence of intelligence tips" necessary to sort out smugglers from the considerable legitimate maritime traffic heading toward the United States. Moreover, drug traffickers quickly adopted new tactics and routes—as interdiction efforts in the Caribbean intensified, other United States agencies reported that the bulk of cocaine traffic entering the United States began coming overland through Mexico. Yet the military continued to expand air and maritime surveillance.

The military's drug surveillance activities illustrate a critical point about the war on drugs: performance and effectiveness are not synonymous. It is a distinction that advocates of further militarization still do not make, allowing them to declare small, tactical successes "victories" even though they contribute little, if anything, to the ultimate objective of the drug war—reducing domestic drug use. Defense Department officials frequently cite such indicators as their high level of effort, praise from their colleagues in law enforcement, and increasing drug seizures and arrests. But the level of effort is an indication of their commitment to the mission, not its success. Nor are increased arrests and drug seizures accurate measures of effectiveness, because they may reflect a rise in drug trafficking rather than an actual reduction in drug availability.

TARGETING THE SOURCE COUNTRIES

Congress began cutting funds for the military's detection and monitoring mission in 1993. But it was a decision by President Clinton late that year that resulted in a drastic reduction in detection and monitoring funding and another shift in the focus of United States drug control strategy for Latin America and the Caribbean. Following a review of the United States counter-drug strategy completed in November 1993, Clinton issued Presidential Decision Directive 14 (PDD-14), which shifted the emphasis from interdicting cocaine as it moved through the transit zones to stopping it at its source in Bolivia, Colombia, and Peru.

Despite the steady increase in coca production since the Andean strategy was launched, the Clinton administration in early 1994 refocused anti-drug efforts on coca plants, the leaves of which are mixed with chemicals to make cocaine. Because fewer alternatives exist for growing coca than for any other link in the drug trafficking chain, argues Robert E. Brown, deputy director for supply reduction in the Office of National Drug Control Policy (ONDCP), source country operations should focus more on crop eradication and substitution programs than on the disruption of processing and transportation. ONDCP announced last year its intention to eliminate worldwide coca production within ten years, a laughable proposition at best and an invitation to direct United States intervention in coca-growing regions at worst.

Coca substitution programs, under which farmers are paid to produce oranges, bananas, cacao, and other crops instead of coca, are expensive, and

Brown and other United States officials acknowledge that because Washington is unable to pay the tab, it is encouraging its Latin American allies, most of whom have other development priorities, to seek assistance for crop substitution programs from multilateral institutions. The ability of these institutions to shoulder the burden is also questionable. The annual budget of the United Nations Drug Control Program (UNDCP), for example, is about \$70 million, or roughly half the State Department's international narcotics funding in 1996. In 1995, UNDCP could provide just \$2.2 million in supplemental funding to Peru, compared to an estimated \$15 million provided by Washington.

The Clinton administration's announced shift in strategy touched off a battle between the Republican-controlled Congress and the Democratic White House over United States drug control policy that reached a fever pitch in 1996, an election year, and still rages today. Republicans attempt to blame the increasing flow of cocaine into the country on the president's decision to reduce transit zone interdiction efforts. Clinton administration officials counter by arguing that Congress cut back funding for interdiction faster than the White House had originally proposed, while failing to provide the full funding requested for source country programs.

The administration has attempted to offset transit zone funding cuts by encouraging greater cooperation from its Caribbean allies, but its efforts have met with strong resistance from leaders concerned about a further erosion of their national sovereignty. Although Trinidad and Tobago quickly agreed to a "hot pursuit" treaty, Barbados and Jamaica both strongly opposed attempts by Washington to forge bilateral antinarcotics agreements that would allow United States forces to pursue suspected drug traffickers within the territorial waters and airspace of another country, and only signed treaties after intense United States pressure. Regional leaders accused the United States of using "unfounded allegations, innuendoes, and the threat of punitive measures aimed at the economic welfare of Caribbean states" in its efforts to force them to provide the *carte blanche* for hot pursuits.

ATTACKING THE "AIR BRIDGE"

While the Defense Department continues to spend more money on transit zone interdiction programs and assistance to domestic law enforcement agencies, most of the military's energy, at least in terms of public promotion, is now being spent on source country programs, and in particular its

attack on the so-called air bridge that connects coca growers and coca paste manufacturers in Peru and Bolivia with Colombian cocaine refiners and distributors. The aim is to interdict drugs before they enter the transit zone. By targeting the small aircraft that ferry coca paste from Peru and Bolivia to Colombia for refining, United States military planners argue, coca farmers will no longer be able to get their product to the "market," thus driving down the price paid to growers and forcing them to convert their coca fields to more lucrative, licit crops. At the same time, it will drive up the cost of transport for Colombian drug traffickers, an increase that will then be passed on to United States consumers, who will be discouraged from using cocaine by the higher price.

This strategy temporarily became entangled in a dispute over policies adopted by the Peruvian and Colombian governments—with strong United States encouragement—to shoot down planes of suspected drug traffickers. When Colombia announced in early 1994 that it too, like Peru, would adopt a shoot-down policy, some United States officials in Washington became concerned that the policy would violate international law. After the Justice Department ruled that "United States officials who knowingly provide information that leads to the shooting down of civilian aircraft could be subject to criminal prosecution," the Defense Department halted the sharing of "real-time" aircraft tracking information with Colombia and Peru in May 1994. Congress responded that fall by providing official immunity for authorized United States personnel engaging in assisting foreign countries in anti-drug aircraft interdiction.

Freed of legal constraints, the military began its attack on the air bridge in early 1995 by supplying the Peruvian and Colombian armed forces with sophisticated radar and surveillance equipment. By October of that year these efforts had evolved into a formal, classified mission dubbed Operation Green Clover, a three-month operation in which more than 300 United States soldiers, sailors, airmen, and marines worked in tandem with forces from Peru, Colombia, Ecuador, Panama, Costa Rica, and Venezuela. "We assist with what we call the 'end game,' which is the actual capturing of a plane, but it is the host nations themselves that do any chasing or shooting," explained Brigadier General George Close, SOUTHCOM's director of operations.

SOUTHCOM officials trumpet Green Clover's success in terms of disrupting the air bridge, but reports on the extent of this success vary. Accord-

ing to the January 19, 1996, issue of the command's own newspaper, *Tropic Times*, the operation "resulted in the shooting down of 27 drug-smuggling aircraft by allied nations." When touting the success of Green Clover three months later, Secretary of Defense William Perry said, "Twelve drug-smuggling aircraft were interdicted or shot down by allied nation forces during the operation." Nonetheless, the "superbly executed military operation" led to an expansion of the source country strategy, according to its self-proclaimed "principal architect," General Barry McCaffrey, the commander of SOUTHCOM.

In April 1996, a month after McCaffrey stepped down as SOUTHCOM's commander to become national drug czar, the military announced the launch of its successor mission, Operation Laser Strike. As part of the ongoing operation, United States military personnel work cooperatively with nine Latin American countries, operating ground-based radar sites, flying detection and monitoring aircraft, and providing operation and intelligence support to host nation forces. While the air bridge between Peru and Colombia was the sole focus of Green Clover, Laser Strike expanded the source country strategy; it now includes operations aimed at disrupting the river and coastal smuggling routes developed by drug traffickers as an alternative to air transportation in neighboring Ecuador, Venezuela, and Bolivia, as well as in Peru and Colombia.

In October 1996 McCaffrey told Congress that "results of this multinational, cooperative effort have yielded stunning tactical results. The so-called 'air bridge' between Peru and Colombia saw a greater than 50 percent temporary reduction of flights as aircraft were intercepted and, in some cases, shot down. The cost of shipments increased fivefold, as pilots demanded more money as their personal risk increased dramatically. Movement was reduced so dramatically that there was a glut of coca base on the market and the price of the product being shipped fell by 50 percent overall and as much as 80 percent in some areas."

The "success" of the air bridge attacks is noted widely by the Clinton administration, even as the flow of drugs into the country continues to rise and South American coca and poppy production expand. While acknowledging that these operations have

had no impact on the availability and price of cocaine in the United States, a high-ranking National Security Council official, Peter Boynton, director of global issues and multilateral affairs, still argued in March 1997 that the administration has "been successful to an extent that no one has had before." Because of a dramatic drop in profits from coca leaf production, farmers are now "more open" to growing alternative, licit crops, he explained, adding that intelligence reports indicate there has been "significant abandonment of coca fields in Peru."

The administration's assertion that coca production in Peru in 1996 fell precipitously—18 percent according to its figures—is not in dispute. What is in dispute are the reasons for that fall. Coca fields

continue to be abandoned due to the spread of a fungus that has recently plagued coca production in Peru. (In fact, Peruvian coca farmers have been clamoring for years for economic support in order to switch to alternative crops.) In addition, Peruvian coca and cocaine base have traditionally been purchased by the Cali cartel; hence, coca production in Peru was significantly affected by the Colombian government's gains against the cartel, most of whose leadership is now

behind bars. More important, Colombian drug analysts point out that Colombian traffickers have sought to "verticalize" the cocaine industry by eliminating the need to transport a raw material, coca or cocaine base, from other countries. As a result, coca production in Colombia increased by a huge 32 percent in 1997 alone, according to the United States government's own figures. Colombian traffickers are now importing and promoting domestic production of a more potent and productive variety of Peruvian coca from the Tingo Maria region. Finally, administration officials themselves note that as a result of the "successful" air interdiction program, more cocaine-related products are transported by river—hence the need for more resources for greatly expanded riverine interdiction programs.

A POLICY DOOMED TO FAILURE

Even as the Defense Department plans further expansion of its counternarcotics efforts, many within its ranks remain highly critical of the military's involvement in the drug war. Like their civilian counterparts, these critics question the underlying rationale for the mission, its effective-

Even as the Defense Department plans further expansion of its counternarcotics efforts, many within its ranks remain highly critical of the military's involvement in the drug war.

ness, and its impact on the region's democratic institutions. They also challenge the strategy and tactics being used to carry out the mission, arguing that they work at cross-purposes with the desired result.

The military's counternarcotics operations in Latin America have also been hurt by its poor understanding of the Clausewitzian principle of attacking the enemy's "center of gravity," according to critics. If, as Clausewitz suggests, the "center of gravity" is the "hub of all power" and "the point against which all energies should be directed," then, by its own estimation, the military is fighting a foe whose defeat is improbable. SOUTHCOM officials have identified 14 "centers of gravity" in the drug war, including "narcoguerrillas," coca farmers, drug labs, coca and poppy growing areas, and drug mafias, as well as drug users in the United States and Latin America. That there are this many centers of gravity would indicate that the mission nears the impossible. Analysts Eva Bertram and Kenneth Sharpe argued in the Winter 1996 issue of *World Policy Journal* that the real "center of gravity" is the demand for drugs in the United States, which creates the economic incentive to supply them. In that case, "the enemy in the drug war is not a foreign army of insurgency, but an economic market."

The current supply-side approach is further hampered by the "balloon effect" of applying pressure in one place only to see the problem pop up somewhere else. Perhaps an even more accurate description is the "hydra effect" noted by Bertram and Sharpe in their *World Policy Journal* article: "Like the mythical sea serpent that Hercules battled, the drug trade is an evasive enemy: Each time one of the hydra's heads is cut off, two more grow in its place." Repeated counternarcotics operations have caused traffickers to diversify their supply routes, while sometimes forcing coca growers and processors to move their fields and labs to more remote areas. The potential for controlling the impact of the hydra effect on drug interdiction efforts is severely limited by the sheer size of the geographic area involved. Peru, Colombia, and Bolivia combined are as large as the United States east of the Mississippi, and the Caribbean and Gulf of Mexico equal slightly less than half the land area of the United States. Despite the best intentions of the Defense Department and other United States government agencies, all evidence points to a glut of coca, cocaine, and heroin on the international and United States markets.

Beyond the failure of the drug war to date to stem the flow of illicit drugs into this country,

United States military personnel express concern about the unintended consequences of a drug war that has led Washington to forge closer ties with military forces that are notorious human rights violators. In calling for the demilitarization of United States anti-drug efforts, one Navy commander cited a report on drug policy produced by an Inter-American commission that noted that the increased military role in drug enforcement in Colombia, Peru, and Bolivia resulted in "greater violence and increased violations of human rights." Others warn that by tightening its alliance with local military forces, the United States government undermines people's faith in civilian institutions at a time when democratic development remains delicate.

THE ADMINISTRATION IN DENIAL

Clinton administration officials respond vociferously to suggestions that human rights and democratization are taking a back seat to the objectives of the drug war. They stress that all counternarcotics training provided to the region's militaries includes human rights instruction and that all United States personnel receive human rights training before they are sent to the region, where they are required to report any suspected abuses by their allies. But through the drug war, United States assistance is provided prior to actual improvements in human rights performance or demonstrated political will on the part of aid recipients to hold accountable those responsible for abuses.

Washington works most closely with local military forces because there are few alternatives, explains ONDCP's Brown, noting that police in the region are "most typically corrupt because they are vastly underpaid." The alternative of strengthening civilian institutions to increase their effectiveness in countering drug trafficking "is not a viable approach anywhere in the near term." However, as described earlier, the long-term consequences of increasing military involvement in the drug war may be even more detrimental to the prospects for democratic consolidation and regional stability, both of which are fundamental for international drug control efforts to ultimately succeed. Calling out the troops may satisfy short-term needs to score political points at home, but it undermines efforts to rein in Latin American militaries and redefine their roles to encompass only traditional national defense. Nor is it clear that bringing in the military will allow local governments to circumvent the very real problem of corruption. As Bolivian President Gonzalo Sánchez de Lozada, who completed his

term in office last year, once put it, "When you have a corrupt chief of police, you fire him. When you have a corrupt chief of the army, he fires you." The lack of accountability and transparency for the region's armed forces makes routing out the inevitable corruption that accompanies anti-drug efforts even more difficult.

WHAT THE FUTURE HOLDS

The future course of the military's counternarcotics efforts is unlikely to be shaped as much by the debate within the United States military or the Clinton administration as it will be by developments on Capitol Hill, where the purse strings are controlled. In the drug war, as a Defense Department official put it, the military does "what we have been told to do" by Congress. Political pressure by Congress for further militarization of the drug war is undeniable, with lawmakers displaying their enthusiasm by consistently providing Defense with more counternarcotics funding than the White House requests, including an additional \$143 million in 1997.

One of the United States Navy's highest-ranking officials, retired Admiral Elmo Zumwalt, has dismissed the heated rhetoric by noting that "when congressmen and senators sound off, it is usually 10 percent body and 90 percent odor." How noxious the current stink becomes may depend on how effective general-turned-drug czar Barry McCaffrey is in his post. When Clinton named General McCaffrey, the Persian Gulf War hero and former SOUTHCOM commander, head of the ONDCP in March 1996, it was widely seen as a direct response to Republican election-year criticisms that the president was "soft" on drugs. And many people argued, some favorably, that the appointment presaged a further militarization of the drug war. Since taking office, however, McCaffrey has eschewed use of the war metaphor when discussing United States anti-drug efforts, preferring to cast the enemy not as a military foe but rather a social "cancer" that requires a different sort of response. "At the end of the day, I would suggest that this actually isn't a war and it's not to be won by anybody's army," he told Congress soon after being named drug czar. "At the end of the day, prosecutors, law enforcement officers, teachers, school superintendents, religious leaders, that is who the front-line troops are."

Nevertheless, while McCaffrey may be inclined to view the surgeon general as the most appropriate commander for the overall United States coun-

ternarcotics effort, it is clear that he believes there still is a vital role for United States military forces to play. In a March 1997 speech at the Heritage Foundation, he reiterated his argument that the use of the war metaphor is inappropriate, but then quickly made an exception for Latin America, where "the language is pretty useful for us." Despite General McCaffrey's rhetoric highlighting the problem of demand for illegal drugs, programs and resources have not shifted accordingly. The expanded ONDCP staff is stacked with his military protégés, and he has proved himself to be more adept at obtaining funds for his Latin American military allies than for domestic, demand-related programs.

The 1997 National Drug Control Strategy, the first the ONDCP produced fully under his tenure, provided additional evidence that McCaffrey will keep United States military personnel active in the fight against illegal drugs, both internationally and domestically. United States forces and their regional allies must continue to "give the traffickers no quarter," the report urged, and to do so will require "taking aggressive action in source countries, throughout the transit zone, and at our borders."

Since politics shapes the course of United States policy more than the realities of the drug problem, the future role of the military in fighting drugs ultimately may be decided by whichever of two strong popular currents proves to be the more powerful in terms of generating public pressure. The first is the desire to slash government spending, which raises the question of how long the public will tolerate the expenditure of nearly a billion dollars a year on military counternarcotics efforts that have yielded little in terms of reducing the demand for and availability of drugs in the United States.

Defense spending, however, traditionally has been the last area hit by the congressional budget ax, and this is a result of the second driving force, the near-childlike faith Americans have in the ability of their armed forces. They believe the military solution to the national drug problem will be relatively painless since it will occur outside the country. As long as the national drug control strategy continues its overwhelming emphasis on supply-side controls, much of the action in the drug war is guaranteed to occur beyond United States borders under the Defense Department's command. The principal question that remains is how "aggressive" that action will be. The costs to democratization and human rights throughout the region will no doubt continue to be high. ■

The United States and the countries of Asia "have been curiously slow in adding narcotics to the diplomatic agenda, unable to move beyond pious expressions of concern to tackle the problem together. What happened to the anticipated Golden Age of multilateral cooperation that was to have unfolded in Asia in the post-cold war era?"

Asia's Drug Menace and the Poverty of Diplomacy

JAMES SHINN

Optimists on both sides of the Pacific hoped that the end of the cold war would also hasten the end of Asia's undeclared drug war. Rapid economic development would ease the grinding poverty that fostered both poppy cultivation and narcotics addiction, political liberalization would root out corrupt officials and impose the rule of law on criminal dealers, and multilateral cooperation by Pacific Rim governments would crush Asia's *narcotraffickers*.

The optimists were wrong.

Rising incomes have stimulated demand for narcotics throughout the region, creating a booming market for opium cultivators in the rural backwaters left untouched by Asia's economic miracle. Politicians and police in Asian democracies have shown themselves no more immune to "donations" from drug syndicates than their counterparts in South or North America. Meanwhile, lingering suspicion, bureaucratic distaste, and multilateral sloth impede regional efforts to suppress the drug trade; the Association of Southeast Asian Nations (ASEAN), the Asia Pacific Economic Cooperation (APEC) forum, and the UN have been equally impotent in addressing the foreign policy problem of narcotics.

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¹These production and consumption figures are based on Stephen Flynn's chapter, "Asian Narcotics: Rethinking the War," in James Shinn, ed., *Fires across the Water: Transnational Problems and Asian Politics* (New York: Council on Foreign Relations Press, forthcoming).

THE MIRACLE'S OTHER SIDE

Asia's rising economic tide has made the drug problem worse, since the demand for narcotics increases with higher income levels. Higher incomes also lead to more variety in drug consumption. Hmong tribesmen in the Vietnamese highlands may still smoke raw opium, but urban Asians can choose from a wide assortment of refined narcotics that range from heroin, cocaine, and crystal methamphetamine (known as "ice") to so-called designer drugs—synthetic narcotics or hallucinogens—such as Ecstasy. The narcotics problem in Asia is not primarily an issue of drug smuggling from the Golden Triangle to the United States but of new consumption patterns on both sides of the Pacific (the Golden Triangle is the traditional opium-growing region that incorporates parts of northern Thailand, eastern Burma, and western Laos).

Laos is a classic example of this change in consumption habits: Laotian addicts now consume almost half the estimated 200 metric tons of opium produced in Laos each year, most of which used to be exported. Overall, at least 50 percent of the 3,000 metric tons of opium grown in Asia is consumed within the region.¹ Ominously, Asia has become the largest and fastest-growing narcotics market in the world, accounting for 40 percent of world consumption. The number of drug addicts in the region is huge: 1.2 million heroin addicts in Thailand and 400,000 in Burma, and 500,000 ice addicts in Japan. China has 500,000 registered heroin addicts, but estimates of the actual number range from 1 million to 2 million.

Along with higher incomes, rapid urbanization and internal migration are fueling this explosion in

demand. Asian megacities such as Jakarta, Bangkok, and Guangdong are ringed with teeming slums where young men and women are cut off from their rural roots and community support networks. China has at least 100 million people drifting around the country in search of work. The onslaught of "modernity" corrodes traditional values quickly, and drug consumption is a tempting form of relief and recreation.

Soaring drug demand has been accompanied by supply-side improvements in price, quality, and delivery. For example, heroin street prices in the United States have fallen by two-thirds over the past 15 years, from \$3,400 per gram in 1981 to \$1,200 per gram in 1995, and purity has soared from 15 percent to 50 percent because of better production technology in Asia and more sophisticated smuggling around the Pacific.

PUTTING GLOBALIZATION TO WORK

The Chinese criminal gangs that traffic most of Asia's narcotics have moved drug production labs into the jungles of Southeast Asia, near the opium harvest, taking advantage of better equipment and more easily obtainable precursor chemicals used in the refining process. These smaller portable labs can also be used to "cook" methamphetamines (a smelly and potentially dangerous process) and synthesize designer drugs. Taiwanese criminal syndicates have moved their ice production sites to China's coastal provinces such as Fujian, just as many legitimate Taiwanese chemical companies have moved their bulk production to the mainland while supplying complex precursor ingredients from Taiwan.

The entrepreneurs behind this production innovation, Chinese criminal "triads" such as the Sun Yee On, Wo Hop To, United Bamboo, and the 14K gang, are equally skilled in delivering the finished product throughout Asia and to the United States and Europe. Narcotics are produced locally but sold globally.

Two-thirds of the world's opium is grown in Southeast Asia, most of it in Burma, whose annual output is estimated at 2,500 metric tons (which equals 250 metric tons of heroin), grown under the protection of local drug warlords such as Khun Sa and his Mong Tai "Army." Once refined, the heroin is transported south to Bangkok where it is shipped to the wider world, or northeast across the border into China's Yunnan province and then overland to Guangdong and Hong Kong, where the triads can

tap into the global shipping network. Chinese authorities were shocked in April 1996 when they stumbled across 600 kilograms of heroin in Guangdong on its way to Hong Kong.

The triads have formed strategic alliances with other criminal organizations to distribute the entire pharmacopoeia of narcotics and to launder the resulting cash flow. The triads, for example, supply ice to Japanese *yakuza* or criminal gangs, such as the Inagawa-gai and the Yamaguchi-gumi, who import rather than produce most of Japan's methamphetamine supply. They also assist the *yakuza* in recycling their revenues offshore, frequently through real estate investments in Asian cities or in Hawaii. The triads also work closely with Nigerian smuggling rings that supply Europe with Asian heroin, and with Latin American gangs, such as the infamous Cali syndicate, trading Burmese heroin for Colombian cocaine to satisfy Asia's burgeoning crack market.

One of the engines of Asia's economic dynamism—free trade in goods and liberalized financial transactions—also makes it easy for the triads to smuggle narcotics and launder the revenues. In Taiwan, 3.8 million marine shipping containers arrive each year at the major ports of Keelung and Kaohsiung. Of these, 1.8 million are labeled transit containers; Taiwan Customs ignores these and merely samples the other 2 million containers on a random basis, resulting in an inspection—often cursory—of only about 300,000 containers.²

It is clear that even with the best of intentions, Taiwan's Customs authorities are overwhelmed by the scale of their country's trade—it would require an army of agents just to inspect the marine container traffic (United States Customs estimates that it takes 5 agents 3 hours to fully inspect a standard marine container). In the region's many free-trade zones, such as the ports of Hong Kong and Macau, Masan and Iri in South Korea, Batam in Indonesia, and China's special economic zones of Shenzhen, Zhuhai, Xiamen, and Shantou, there is no customs revenue to be gained from inspecting freight traffic, so the authorities do not even try to inspect for drugs. Asia's stream of narcotics simply vanishes in the vast river of Asian commerce.

Laundered drug money is even more difficult to trace. By "chaining" money transfers between multiple institutions (that is, making multiple transfers back-to-back), triads can effectively delete a paper trail. Even if law enforcement authorities successfully trace a transactions needle through a funds-

²See Flynn, *op. cit.*

transfer haystack, they often end up stymied by bank confidentiality. No longer an exclusive feature of the Channel or Cayman Islands banks, such confidentiality is now offered to Asian customers at new offshore banking facilities on the Pacific Islands of Vanuatu, Samoa, and Nauru.

But the triads do not need to travel so far. With its unregulated and sophisticated financial markets, Hong Kong—the city built on the nineteenth-century opium trade—remains the Mecca of money laundering in Asia. The city's authorities have long turned a blind eye to this activity. A senior Chinese official bitterly observed to the author in June 1996 that “Soon we will recover Hong Kong from the British, who are already complaining that we will wreck the colony's rule of law. What rule of law? [This is] the transshipment point for most of Asia's narcotics, the place where most of the drug money is laundered, and where the triad criminals hide their investments in bank accounts or flats on Victoria Peak. If we move into Hong Kong in 1997 and clean up this nest of thieves, the Western press will pillory us for trampling on the colony's civil rights.”

MONEY'S CORROSIVE POLITICAL INFLUENCE

Not only have economic growth, free trade, and unfettered financial flows compounded Asia's narcotics problem, but political liberalization and democratization throughout the region have failed to deliver on the promise of imposing “law and order” on the drug trade.

It is ironic that criminal triads have been among the first beneficiaries of the transition from “hard” to “soft” authoritarianism in Vietnam and China. When an authoritarian state begins to liberalize, it creates more space free of government—space where criminals can thrive as easily as other citizens under the protection of law and due process. Law enforcement becomes essentially reactive: the police cannot simply swoop down on triads or yakuza and arrest their members. Once jailed, due process makes it harder to hold criminals; it also imposes rules governing evidence and property seizure, and forces the state to at least go through the motions of a trial.

The political transition of states such as China and Vietnam has also compounded the pervasive corruption among police and customs officials and in the justice system and the armed forces. It is a mark of China's openness to the world trade system that customs officials no longer strictly regulate what crosses its borders. This has been a boon to the triads which, with modest gratuities to poorly paid

Chinese officials, can now transit China with ease en route to Hong Kong. Vietnam is increasingly permeable for the same reason; the 1997 United States State Department's *International Narcotics Control Strategy Report* concludes that “corruption is endemic at all levels of the Socialist Republic of Vietnam's police and military authorities.”

Authoritarian states in Asia do not have a monopoly on corruption: politicians in Asia's democracies are as cash hungry as their counterparts in Latin America and the United States. Money is the mother's milk of electoral politics in Japan, South Korea, Taiwan, Thailand, and Malaysia, and criminal syndicates are eager contributors to campaign coffers.

Why fight the police when you can buy political protection? The triads and the yakuza closely studied Colombia's narcotraffickers. They saw that the Medellín cartel, which virtually declared war on the government, killing 250 judges and even the minister of justice, provoked a campaign by the government that ultimately crushed their syndicate. The Cali cartel eschewed such violence. Instead, it quietly injected cash into the electoral process, including contributions to the campaign of President Ernesto Samper, and remained in business.

In Asia, the triads sometimes cross the line between smuggling and participating directly in politics, as in the case of Thanong Siriprechapong, a member of the Thai Parliament who was extradited to the United States in January 1996 on narcotrafficking charges. The influence of drug money on Thai politics is pervasive: parliament has refused to pass a bill that would make it more difficult to disguise drug money, despite numerous entreaties from the United States. This has led the State Department to complain that “Thailand's sophisticated banking system and an active quasi-legal non-bank financial system provide a hospitable climate for money launderers.”

GEOPOLITICAL ROADBLOCKS. . .

Public opinion polls in Asia and North America regularly put narcotics near the top of the list of international problems. It is the most salient of all “global government” concerns, such as illegal migration or pollution, and easily the most intrusive in the daily life and personal security of the average citizen. Narcotics busts, tales of addiction, and violent, drug-related crimes grab headlines on a regular basis. But governments on both sides of the Pacific have been curiously slow in adding narcotics to the diplomatic agenda, unable to move beyond pious

expressions of concern to tackle these problems together. What happened to the anticipated Golden Age of multilateral cooperation that was supposed to unfold in Asia in the post-cold war era?

The passing of the cold war superpower standoff did not change Asian politics as dramatically as it transformed the political landscape of Europe. Two unresolved national unity problems—between China and Taiwan, and between the two Koreas—fuel a high level of suspicion in the region. And two failed states—Burma and Cambodia—are locked in violent internal struggles for power even as they provide a haven for narcotics production and organized crime.

The Burmese junta known as the State Peace and Development Council (formerly SLORC) remains locked in a civil war that has been waged in the country's northeastern provinces for decades, opposed by the Mong Tai Army, the Eastern Shan State Army, the Kachin Defense Army, and the so-called Myanmar National Democratic Alliance—which field tens of thousands of irregulars, heavily armed with automatic weapons and SAM-7 missiles. Narcotics money keeps these separatist armies in business, and the junta itself is too weak, too illegitimate, and too corrupt to put them out of business.

The Chinese government supports the Burmese junta for geopolitical reasons: Burma provides a window to the Indian Ocean for China's military, and it is a useful counterbalance to potentially hostile ASEAN states on China's southern borders. ASEAN, despite its ambivalence about the junta and its concern with the drug trade, has embraced Burma's military leadership as a counterbalance to Chinese influence in Southeast Asia.

The United States, appalled by the junta's violent 1988 repression of Burma's indigenous democratic movement and its imprisonment of pro-democracy leader Aung San Suu Kyi, has kept the junta at arm's length. Yet the United States Drug Enforcement Administration (DEA) retains a 3-person liaison office in the Burmese capital of Rangoon. Officials in Washington face a wrenching dilemma: Which is worse, the brutal junta or the narcotics trafficking separatist groups? Which is better, standing by the human rights champions of Burma's democracy movement, or suppressing the flow of heroin to American cities?

China remains central to Asia's narcotics problem, as it does to Asia's other transnational problems, such as illegal migration and environmental

pollution, because of its sheer size and the turbulence of its transformation from "hard" to "soft" authoritarian politics.

The Communist authorities in Beijing have long feared the triads as potentially subversive organizations, a suspicion that goes back to 1927, when Chiang Kai-shek's Nationalist government used triad gangsters to slaughter Communists. Since it came to power in 1949, the Communist Party has taken a strong stand against narcotics, beginning with a nationwide suppression campaign that detoxed 20 million addicts between 1950 and 1952. Today the authorities in Beijing are deeply concerned about a recent heroin plague and mounting disorder in southern provinces such as Yunnan, Guangxi, and Guizhou. In 1992 the government sent People's Liberation Army (PLA) troops with armored vehicles and tanks to regain control of the border town of Pingyuan, which had been taken over by narcotraffickers.

However, China's economic growth since 1978 has been built on granting more authority to the country's regions, especially the southern coastal provinces. In the absence of the rule of law, and as the prestige and legitimacy of the Communist Party decline, "local corporatism"—interlocking interests between

the local party apparatus, the local administrative bureaucracy, and the local state security organs—has become the de facto government in much of China. This creates an environment in which criminal enterprise and narcotrafficking flourish.

Beijing finds it difficult to suppress China's growing narcotics business with an iron fist. In addition to resistance from local corporatist interests, the fist itself may be unreliable. Corrupt elements of the Public Security Bureau and the PLA are widely involved in the drug trade. Beijing's official tolerance of PLA involvement in private business has tempted many officers with the quick profits to be made from narcotics production and distribution. As China's senior party leaders compete to solidify their personal networks of support among the PLA, cracking down on military complicity in the drug trade is not an attractive policy option.

As a result, although low-level criminals are periodically arrested and often executed as part of nationwide anticrime campaigns, these campaigns rarely do much harm to the narcotics trade or higher-level traffickers. A lack of faith in the integrity of Chinese law enforcement has made cooperation with foreign law enforcement difficult.

*Why fight the
police when you
can buy political
protection?*

This distrust is reciprocated; according to the United States State Department's 1997 narcotics report, Chinese authorities refused to allow the FBI and the DEA to establish offices in Beijing after an American court "ordered the release of alleged Chinese drug trafficker Wang Zongxiao, who had originally been escorted to the U.S. by Chinese police in 1989 to testify as a witness on the understanding that he would return to China."

The Wang case is a classic example of the pitfalls that hinder both bilateral and multilateral cooperation to solve transnational problems such as narcotics. The legal and institutional bases for cooperation in law enforcement are weak in Asia. For example, the United States lacks an extradition treaty with many countries in the region, such as Burma and Indonesia, and even where a treaty exists, as with Thailand, it requires enormous pressure to extradite an alleged trafficker for trial in the United States. Conversely, few American judges are eager to entrust an American citizen facing a drug charge to the tender mercies of Asian police.

... AND MULTILATERAL ROADBLOCKS

Bilateral attempts to deal with narcotics are inevitably infused with bilateral tensions, and narcotraffickers can easily elude bilateral crackdowns by slipping through third countries; therefore much faith has been placed in the efficacy of multilateral institutions to construct a common framework of policies to suppress demand and interdict smugglers. The UN has passed a series of conventions and protocols on narcotics, culminating in the UN International Drug Control Program in 1991, which consolidated a variety of efforts. In 1996 the UN also coordinated a memorandum on controlling the trade in narcotics precursor chemicals and on trafficking with Burma, Cambodia, China, Laos, Thailand, and Vietnam. Unfortunately, funding for the UN programs has been sparse, and few would argue that they have made much of a dent in Asia's narcotics markets.

ASEAN has also dealt with narcotics, and the ASEAN ministers periodically issue statements deploring the problem. A special ASEAN forum was created to focus on the problem, but it has done little other than host regional seminars on treatment and law enforcement. Lack of funding is one problem, but a more serious roadblock is ASEAN's consensus decision-making style. With some high officials in Burma, Cambodia, and Thailand compromised by the narcotics trade, it is not difficult to see how ASEAN's progress on narcotics would be glacial.

APEC has a similar problem. Its larger umbrella covers not only Asia's drug-producing regions, but also the big markets—China, Japan, and the United States. Beijing has adamantly opposed expanding APEC's charter to deal with problems such as narcotics for fear that other, more sensitive political issues, such as Taiwan or the South China Sea islands dispute, might make their way onto the agenda.

Once narcotics become a multilateral agenda item, diplomats are not comfortable with the topic. Narcotrafficking can be fairly technical, and controlling it requires close cooperation between law enforcement agencies, which are rarely internationalist in any country. Nor does a diplomat want to be "typed" as a narcotics specialist.

Moreover, there are few organized domestic constituencies to applaud multilateral successes in narcotics control or to press governments to negotiate multilateral agreements. The nongovernmental organizations (NGOs) that have been vocal and frequently successful in lobbying for multilateral agreements on the environment or for labor standards have been conspicuously absent from the narcotics debate.

Many groups also oppose tough regulations to crack down on smuggling or money laundering, especially business firms whose shipping or financial interests would be complicated by such regulations. Suppressing the supply of narcotics in Asia requires more government and more regulation, not less; it requires movement against the current of liberalization and deregulation that has powerful advocates in the United States and Asia.

The apathy of officials, the silence of NGOs, and resistance from the business community in the Asian narcotics debate reflect the deep ambivalence toward drug policy that impedes solutions in Asia as well as in the United States. What combination of supply and demand suppression will be effective against the narcotics menace? Is it merely a fool's errand to spend money and political capital on interdiction efforts if the underlying demand for narcotics is so huge? Can demand suppression be dealt with independently of problems such as illegal migration, poverty, and poor health care in the United States and Asia?

Finally, are the Asian nations, authoritarian and liberal alike, prepared to pay the price of interfering with free trade and finance that effective interdiction will require, and—above all—declaring war on the criminal syndicates that have so deeply intertwined themselves with Asian politics? ■

"Whether it is obscure banks in Burma and Cambodia, or more respectable financial institutions elsewhere, the essence of money laundering is the same: to convert ill-gotten cash, usually in small denominations, into a solid deposit—and then hide the origin of the funds in order to use them for legitimate purposes." Bertil Lintner examines how this is done in East Asia, and why it is so difficult to eradicate.

Global Reach: Drug Money in the Asia Pacific

BERTIL LINTNER

In the midst of the Asian financial crisis, at least one business is still booming: the trade in narcotics from the Golden Triangle, the main drug-producing area in the world. This year has seen not only another bumper crop of opium from the Burmese sector of the triangle—an area that also includes parts of China, Thailand, and Laos—but also new scourges from laboratories in the remote Sino-Burmese border mountains: first methamphetamines and now also the designer drug Ecstasy.

In Thailand these new drugs are known as *ya baa* (mad medicine) and *ya ee* (Ecstasy medicine), and warning signs are prominently displayed throughout the country. According to a recent survey by the Thai Development Research Institute, Thailand has at least 257,000 *ya baa* users, a number surpassing its 214,000 heroin addicts.

In China the drug problem is escalating rapidly, especially in the southwestern province of Yunnan, which borders Burma. According to China's National Institute on Drug Dependence, the number of drug addicts in the country has grown from 70,000 in 1989 to more than half a million today—and narcotics experts consider this a conservative estimate.

In Australia, New South Wales Premier Bob Carr said this February that the state's police force was doing its best to stop "an avalanche of heroin and ice" (methamphetamines) flooding into the country. The authorities in Melbourne report an average

of five overdoses a day, some of which are fatal. Cheap and extremely potent Southeast Asian heroin is now available for as little as \$15 a hit.

In the United States, most heroin seized by the police apparently originates in Latin America. But agents from the United States Drug Enforcement Administration (DEA) concede that this may only show that Southeast Asian traffickers are more skilled and cautious than their Latin American counterparts. Given the high price of drugs in the United States, and the number of addicts, it remains the most lucrative market for traffickers.

But where does all the money from the sales of illicit drugs go? And how are the millions of dollars the traffickers earn from the Golden Triangle's booming drug trade "cleaned"? In Burma itself the procedure is straightforward. According to the March 1998 issue of *Jane's Intelligence Review*, the country's military government decided as early as 1989 no longer to confiscate bank deposits and foreign currency earnings of dubious origin. It instead "opted for a 'whitening tax' on questionable repatriated funds levied first at 40% and since reduced to 25%. Equally significant, in early 1993, de facto legalization of the black-market exchange rate took place and narco-funds previously held in Bangkok, Singapore and Hong Kong flooded back into Myanmar [Burma]," *Jane's* reported. It also quoted a retired Burmese banker as saying that "at least 60% of all private business in Yangon [Rangoon] is drug-related." This includes new hotels, supermarkets, infrastructure projects, and other businesses that all started with money derived from the narcotics trade.

However, Burma and Cambodia (another country rife with lawlessness and with a thriving drug-related economy) may be the only countries left in East Asia where someone can still walk into a finan-

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cial institution lugging a suitcase full of assorted banknotes and ask to open an account. Burma, a poor country with a minuscule official economy compared to any other country in the region, now has 21 local private banks and representative offices of 43 foreign banks. Apart from accepting large cash deposits, one of Burma's main domestic banks, which is owned by the Union of Myanmar Economic Holdings, the ruling military's own holding company, promises in advertisements in the Burmese press "prompt, accurate, secure, and secret" services for its clients.

Cambodia's drug economy is equally blatant. According to a recent report from the Australian federal police, 19 out of 29 banks in the capital city of Phnom Penh are "suspected of money-laundering activities." The chairman of Phnom Penh's Chamber of Commerce, Teng Bunma, is barred from entering the United States because of suspected involvement in the Southeast Asian drug trade.

But whether it is obscure banks in Burma and Cambodia, or more respectable financial institutions elsewhere, the essence of money laundering is the same: to convert ill-gotten cash, usually in small denominations, into a solid deposit—and then hide the origin of the funds in order to use them for legitimate purposes.

HIDING THE MONEY TRAIL

Money laundering is considered the world's third-largest industry after oil and foreign currency trading. It is even bigger than the actual narcotics industry, since it is not only drug money that has to be laundered but also proceeds from illegal arms deals, corruption, and tax evasion. Even governments launder money to cover the tracks of covert aid programs, as the United States did in the Iran-contra affair. But according to the United Nations International Drug Control Program, most dirty money, or an estimated \$500 billion to \$750 billion annually, comes from the drug trade. A 1997 study by economists at Bangkok's Chulalongkorn University estimates that Thailand—which, although it is not a major drug producer, remains a regional center for banking and finance—attracts up to \$31 billion in illegal money each year from narcotics, prostitution, gambling, and smuggling.

In the Asia-Pacific region, the most extensive research into money laundering has been conducted in Australia. John Walker Consulting Services in Sydney, which has investigated money laundering for the Australian Transaction Reports and Analysis Center (AUSTRAC), the police body that

provides the government with financial intelligence, divides the process into three phases:

According to the Australian federal police, somewhere between \$600 million and \$3 billion a year

- **Placement:** the physical disposal of the bulk cash profits that are the result of criminal activity;
- **Layering:** the creation of layers of complex financial transactions such as wire transfers to separate the proceeds from their illicit sources;
- **Integration:** the provision of pseudolegitimate explanations for the appearance of wealth by making investments in the licit economy.

are laundered in Australia to pay for hotels, restaurants, real estate deals, luxury homes, or simply extravagant lifestyles. To raise funds for such purposes, many prominent, otherwise respectable businesspeople may invest in a major drug deal. The financiers will never get close to the actual drugs; they hire smugglers and street gangs to do the dirty work.

Once the drugs have been brought in from Southeast Asia and sold in Sydney or Melbourne, the trick is to get the money out of Australia and have it transferred back again disguised as profits from a lucrative business in, for example, Hong Kong or Thailand. Drug dealers usually end up with lots of small cash, which may be smuggled out in bulk, hidden in suitcases or even, as senior Australian federal police officers testify, inside machinery.

An easier and less risky method, police sources say, is "smurfing." This involves a large number of people who visit various banks with cash, where they wire or purchase small drafts just below the \$6,400 (\$10,000 Australian) reporting threshold, which are then sent to accounts in Bangkok and Hong Kong. Bank drafts in the \$3,200–\$5,800 range have also become popular among some money launderers, according to police sources.

Inside Asia, the underground Chinese banking system also facilitates the movement of money from country to country. According to a document from the DEA, "through the underground banking system, heroin traffickers can transfer \$500,000 from Hong Kong to Bangkok within hours simply by visiting a gold shop in Hong Kong's Western Market." From Bangkok the money can be wired to the northwestern Thai city of Chiang Mai, received by the heroin supplier's organization, and for-

warded through another network to Burma to buy more drugs and to finance trafficking operations. Profits from the trade can be sent the other way, via the gold shops in Yawarat, the heart of Bangkok's Chinatown.

When the cash or remittances eventually reach Hong Kong—still the favorite destination for dirty money—they have to be placed safely in one of the territory's 177 international banks or 200 finance companies. The lack of foreign currency controls in Hong Kong once facilitated the movement of illicit funds through the territory, but tighter rules that were put into place before the handover to China forced money launderers to use more roundabout methods.

The most popular is to take the hydrofoil to Macau, change cash or small bank drafts into gambling chips in one of the territory's casinos, spend a few at the gaming tables, and then convert most of them back into a "clean" check. The casino will issue an accompanying document stating that the money had been won at the casino. A source close to the scene in Macau claims that some casino managers specialize in providing such services for money launderers, who have to pay a commission.

"But such minor expenses are part of the business," said the source. The check can then be deposited legally in any Hong Kong bank and, if any questions are raised, the casino manager will testify that his client had had an unusually lucky day at the gaming table.

The result is that money trails become even harder to follow, since casinos anywhere are ideal for laundering and moving drug money. Police sources say that most casinos are linked to a worldwide credit system through which gambling profits or credits can be deposited at, for example, a casino in Las Vegas and later collected in Macau—and vice versa—without going through an established bank. "Billions of dollars are being moved around the world in this manner and there's no way we can check it," an Australian police source said.

¹A shell company is a business entity that is registered in, for example, Vanuatu, the British Virgin Islands, and the Cayman Islands. However, the company does not have a proper office, has no staff, and does not produce anything. The address could be a solicitor's office in Port Vila, and the purpose of the company is solely to be a conduit for dirty money.

THE NEW CAYMAN ISLANDS

Once the cleaned-up cash has entered the official banking system, it can be moved quickly into a variety of financial instruments and accounts. It is in this context that law enforcement agencies are taking a keen interest in a string of new "tax havens" that have been established in the Pacific, paralleling those in the Cayman Islands and similar "financial centers" in the Caribbean.

The South Pacific island states have little arable land, few natural resources, and small populations. Unable to develop industry and agriculture, their greatest strength lies in their proximity to the much richer East Asian economies. Many have sold fishing licenses to fleets from Japan, Taiwan, South

Korea, and the United States. Tonga, Kiribati, and the Marshall Islands have sold passports, mostly to Hong Kong Chinese, and Kiribati has marketed its prime location near the equator to sell satellite launch and tracking services.

But the big money seems to be in providing tax-free financial services to the Asia-Pacific region. The best-established South Pacific tax haven is Vanuatu (formerly the Anglo-French condominium of the New Hebrides), whose tiny, one-street capital, Port

Vila, abounds with nearly 80 banks, 2,000 shell companies, and numerous insurance agents, accountants, and lawyers.¹ Although most of these businesses are legitimate, Australian officials believe that millions of dollars worth of dirty money, including drug money, is placed in the banks of Vanuatu and other Pacific tax havens through trusts and shell companies, protected by a web of impenetrable laws.

Vanuatu is in the same time zone as East Asia, has no reciprocal-tax agreement with any other country, and considers breach of confidentiality a criminal act. Further, what attracts money to centers such as Vanuatu is not their status as tax havens. According to AUSTRAC's Tim Morris, an expert on money laundering, "It is not the absence of taxes, or even the ability to walk into a bank with a suitcase full of cash with no questions asked, that makes an offshore banking center attractive. It's the strict bank secrecy, the inability of any government to investigate the source of unusual wealth parked in places like that."

Concerns about Vanuatu's secretive banking laws were highlighted in 1996 by a scandal in Indonesia

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surrounding Vanuatu-incorporated Dragon Bank. The bank, headquartered in a small downstairs room in a Port Vila office building, had announced plans for a 101-story skyscraper in Jakarta, a \$4 billion telecommunications venture (also in Indonesia), and an \$80 million property project on the Malaysian island of Langkawi. But in June 1996 government officials shut down Dragon Bank in Indonesia for operating without a banking license. In January 1997, the government in Port Vila also revoked its banking license in Vanuatu.

Although the vast majority of Vanuatu's banks are owned by ethnic Chinese interests from Indonesia, Hong Kong, Taiwan, and China, dirty money from other parts of the world has also ended up there. Alarm bells rang at AUSTRA's Sydney headquarters two years ago when it was discovered that seven Russian banks had shown interest in opening representative offices in Vanuatu. The concern reflects the state of Russia's banking system as much as Vanuatu's. The DEA has estimated that of nearly 2,000 Russian commercial banks, at least a quarter are owned by major criminal organizations.

The South Pacific seems to have first attracted the interest of Russian bankers two years ago when the United States government increased pressure on financial centers in the Caribbean. In February 1996, five of the six banks in Antigua were closed by the island's authorities. All were suspected of having laundered dirty money for the Russian mafia.

Only one bank in Vanuatu has been positively identified as Russian-owned: Prok Bank, whose name means "profit" in Russian. While there is no suggestion that Prok Bank has engaged in any illegal activities, law enforcement officials believe several more Russian banks are operating in Vanuatu under phony names.

Nauru, Western Samoa, the Cook Islands, Niue, and the Marshall Islands also provide offshore services for foreign companies and banks. Tiny Niue, a territory associated with New Zealand, has only 2,000 inhabitants and is eagerly protecting its financial center, which is the island's major source of income. Offshore banking services reported receipts of \$118,000 for 1995–1996, but the Audit Office of New Zealand has complained that it continues to be refused access to records of offshore banking transactions. In 1997, about 200 companies were registered in Niue, producing about \$227,000 for the territory.

The Trust Company of the Marshall Islands (a former United States dependency) has just opened a new headquarters to cope with expanded busi-

ness with offshore corporations. Several ethnic Chinese who have acquired Marshall Islands citizenship are known to have been involved in the smuggling of illegal aliens from China to the United States.

Long a haunt of buccaneers, beachcombers, and missionaries, the South Pacific is becoming a new kind of paradise—for crooks and money launderers flocking to take advantage of the islands' secretive financial regimes as well as the naiveté of many of the leaders of these young and poor island states. In theory, all members of the South Pacific Forum, the island states' regional body, are pledged to respect the 1992 Honiara Declaration (named after the capital of the Solomon Islands, where the meeting was held), which encourages them to outlaw money laundering. In reality they have neither the funds nor the institutions to carry this out.

In only one case has laundered drug money been seized in Vanuatu. This came after the United States provided hard evidence that money from drug sales in America had been transferred to Australia, and then into offshore trusts in Vanuatu. The seizure took place in March 1995, and the amount, \$1.5 million, was forfeited to the Vanuatu government following a United States Supreme Court order. It was a small and solitary victory for law enforcement.

MONEY IS MONEY

With the drug trade booming in East Asia and the entire region in financial turmoil—and in the case of Indonesia, also political uncertainty—the need to transfer "hot" money to safer jurisdictions has become even more urgent than before. Illegal immigration from China, and the related trade in false and real foreign passports, is also a multimillion-dollar business. Law enforcement agencies face the herculean task of trying to stem this traffic in people, drugs, and money; the degree of their success depends almost entirely on the cooperation they receive from the financial sector, particularly the submission of suspect transaction reports.

But do bankers, lawyers, and accountants—from Bangkok, Rangoon, Phnom Penh, and Moscow to Hong Kong, Singapore, Jakarta, Port Vila, Sydney, and San Francisco—know what kind of money they are handling? The weakness of the entire system, and all the players it involves, was best summed up by the infamous American-Sicilian gangster Charlie "Lucky" Luciano: "There's no such thing as good money or bad money. There's just money." ■

"The drug war as a moral call to arms has always lacked resonance in Europe. Expectations about what drug policy can do are lower than in the United States; the possibility of victory over drugs—the elimination of drug abuse—is seldom raised, even rhetorically. Nor is drug policy conflated with military goals and security. . . In Europe, drug control remains a civilian affair."

New Drugs, New Responses: Lessons from Europe

ELIZABETH JOYCE

Europe has often looked to the United States for advice on drug control. The United States puts more resources into gathering intelligence on global trends, collects better data on domestic consumption patterns, and believes its methods of policing drug consumption and trafficking should serve as models for the rest of the world. But the new drugs and trafficking trends emerging in Europe might soon make the United States war on cocaine producers in Latin America seem as antiquated as a battle fought with muskets. Drug experts in the United States can now look to Europe for clues about new drugs making their way to American consumers, new producers aiming at United States markets, and fresh ways of thinking about drug control.

Europe does not have a drug war like the one the United States is engaged in because Europeans would find it hard to agree on an enemy, let alone a response. Europe, for example, is itself a major producer of synthetic drugs. Synthetics represent a new way to produce and traffic drugs. One of these, MDMA (3, 4 methylenedioxymethamphetamine, commonly known as Ecstasy), has the effect of a hallucinogen with an amphetamine-like stimulant. In 1995 police in Europe seized 396 million Ecstasy tablets. A cheap and readily available drug (an evening's supply costs between \$10 and \$25), Ecstasy has been an integral part of younger Europeans' nightlife for more than 10 years. It is

also easy to produce; recipes are available on the Internet.

European traffickers in synthetic drugs do not have to deal with unwieldy opium, coca, and marijuana crops in remote rural areas, nor with truculent farmers and producers; they can make the drugs themselves and control the entire process. Synthetic drug production is as appealing to small criminal groups as to large organizations. Small producers can develop their business discreetly without confronting larger traffickers, which is not the case with cocaine and heroin, where new businesses frequently have to compete with established traffickers for control of raw materials and routes.

Laboratories can produce as many as 12 million Ecstasy tablets daily and are even portable. In 1992 Dutch police seized a fully operational Ecstasy laboratory housed inside a shipping container that had been mounted on a flatbed truck and hauled throughout the Netherlands to avoid detection. Synthetic variants that are not yet illegal are also easy to develop; such is the concern in Europe about these variants that the European Union (EU) has introduced Union-wide measures to improve reporting on and accelerate the banning of new synthetic drugs to circumvent the two years it takes to get a narcotic banned by the UN.

The Netherlands is the world's largest producer of Ecstasy, although police have also uncovered laboratories in other European countries, including Poland and the Czech Republic. Until recently it had not been produced in any quantity in the United States, where supplies still tend to be imported from Europe. But the new popularity of Ecstasy and amphetamines in Europe is echoed in the resurgence in the popularity of metham-

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phetamines in the United States, especially the southwest. The United States Office of National Drug Control Policy estimates that 4.7 million Americans have used methamphetamines recently. Ecstasy and its variants could easily be produced in vast quantities in the United States, as they are in Europe; no one has ever accused American entrepreneurs of being slow to recognize an attractive new product.

THE EUROPEAN MARKET CONTRASTED

Proportionally, fewer Europeans than Americans use drugs. Yet, because both are Western and industrialized, the United States and European markets for illicit drugs are often assumed to be about equal, with regional variations in preferences for particular types of drugs. But Americans appear to be far more likely than Europeans to try illicit drugs, and this willingness makes them open to new products. According to a 1993 National Household Survey on Drug Abuse, 37.2 percent of Americans have tried illicit drugs. The proportion of Europeans who have tried illicit drugs, according to the European Monitoring Center for Drugs and Drug Addiction (EMCDDA), is only 5 to 16 percent, depending on the country surveyed.

The United States also has more hard drug users proportionally. Americans use more heroin than Europeans, although traditionally it was believed that European hard drug users preferred heroin and their American counterparts cocaine. While it is true that heroin has long been and remains the hard drug of choice in Europe, prevalence of use is no higher than in the United States. Indeed, the EMCDDA claims that the European prevalence of heroin use might be as low as half that of the United States. Nor has cocaine become as popular in Europe as it is in the United States: official estimates put the percentage of Americans who have tried cocaine at 11.3 percent, compared with a European range from 1 percent (Germany, France, and Belgium) to 4 percent (Spain). Cocaine costs more in Europe than in the United States, and there are other, cheaper local drugs from more reliable sources that compete with it, including European-produced methamphetamines.

Lacking a serious cocaine demand problem, European governments do not focus special attention on Latin America when they consider external illicit drug sources. In contrast, stopping the flow of cocaine is the main United States international drug control priority. United States drugs have always been imported from other parts of the world,

but Latin America has supplied almost all the cocaine, much of the marijuana, and a rising proportion of the heroin that United States drug users have consumed. Foreign drug policy has therefore been intensively focused on a small number of Andean countries, the Caribbean islands that serve as transit and money-laundering centers (Jamaica, Aruba, Antigua, Trinidad and Tobago, the Bahamas, Puerto Rico), and Mexico.

Europe has not had such a sharply defined front on which to wage a war on drugs. Drugs pour in overland through the Balkans and North Africa; by sea to isolated coves on the coasts of Italy, Spain, Scotland, Ireland, and Greece, and the major ports of Rotterdam and London; and by air through every major airport on the continent. Bulgaria, Romania, Poland, the Czech Republic, Austria, Britain, France, Germany, Italy, Spain, the Netherlands, and Belgium are all major transit countries.

The drug traffickers' map of Europe also reflects every major political change that has taken place over the last decade, from the war in Bosnia to the cease-fire in Northern Ireland. When war raged in the Balkans, traffickers opened up Hungary and Czechoslovakia as routes to Western Europe. After conditions improved and the old Balkan trails were reopened, the new routes remained in place. Similarly, the withdrawal of hundreds of British troops from Belfast in the mid-1990s allowed drugs to enter what had been one of the few relatively drug-free urban centers in Europe.

THE NEW MENACE FROM THE EAST

The most important political change in Europe—the collapse of communism—has also been the greatest boost to the global drug trade in the last decade. Communism's end has given both trafficking and consumption a stimulus comparable only to that created by the Vietnam War. Eastern Europe has become the main source of drugs entering Western Europe, and drugs produced in the east are also finding their way to North America. The triangular trade involving traffickers in Latin America, Eastern Europe, and Western European countries like Italy is no longer a nascent threat but an established reality. Every shipment of cocaine to Europe locks Latin American traffickers more tightly into this burgeoning market, which in turn protects them against the vicissitudes of their battle with United States law enforcement.

The speed with which the drug trade in Eastern Europe and the former Soviet states has developed is astonishing. According to the research group

Oxford Analytica, the Russian narcotics business alone is worth an estimated \$6 billion annually, and proceeds from drugs are believed to have allowed organized crime to gain control of at least a quarter of Russia's banks, more than half the country's capital, and some 80 percent of all shares sold on the Russian stock exchange. Russia is also now a producer of synthetic drugs; St. Petersburg is the production center and acts as a magnet for unemployed chemists and pharmacists from the rest of Russia and other former Soviet republics, especially Latvia. The former Central Asian republics of Kyrgyzstan and Kazakhstan produce both opium poppy and marijuana, and Central Asia itself is a transit route for heroin being smuggled to Europe from Afghanistan and Pakistan. A 1997 report from the London-based International Institute for Strategic Studies said that Kyrgyzstan alone was exporting more drugs than Burma or Thailand.

Poland has become Europe's largest producer of amphetamines. The country's law enforcement agencies lack the capacity to control Poland's thriving band of illicit entrepreneurs. Polish drug producers also manufacture a domestic opiate called *kompot*, derived from poppies grown in the "Polish Triangle" between Miechow, Proszowice, and Krakow. Poland, like the Czech Republic and Russia, also produces a variety of other illicit synthetic drugs, and its central location on the European mainland makes it an important transit country: Warsaw, Gdynia, and Gdansk are key transshipment points. In addition, Poland has a burgeoning consumption problem not entirely unrelated to its dual status as a producer and transit country: from 1990 to 1996, the number of registered Polish drug addicts rose by almost 50 percent to more than 20,000.

Policies to respond to this increased drug activity are not in place. When European law enforcement officials began cooperating with Poland in the early 1990s, they found a yawning chasm between drug control there and in Western Europe. In all of 1996, police and customs officials detected only 97 cases of border trafficking. And not until 1997 did Polish police set up a narcotics unit to coordinate

law enforcement operations. Police powers were curbed after the end of communism in Poland, but this process of liberalization, which did so much to enhance civil liberties, prohibited some of the standard weapons that the police could use against the drug trade. Until recently, undercover and sting operations were not allowed, nor were "controlled deliveries," police operations in which officers follow a drug courier on a trail to what they hope will be a trafficker of greater importance. Countries such as Poland pose a particular problem for Western Europe because they will soon become part of the EU; the Western European countries must race to ensure that drug control is at least marginally effective before their borders are opened even further to new members in the east.

EUROPEAN RESPONSES

The drug war as a moral call to arms has always lacked resonance in Europe. Expectations about what drug policy can do are lower than in the United States; the possibility of victory over drugs—the elimination of drug abuse—is seldom raised, even rhetorically. Nor is drug policy conflated with military goals and security. In the United States, the drug war has been both a metaphor and a literal description of policy since the Department of Defense overcame its reluctance in the 1980s to play an ever greater role in drug control. In Europe, drug control remains a civilian affair.

There is, nevertheless, a high degree of concern about drugs in Europe. Most European countries are signatories to the three UN conventions on drugs.¹ Many European governments have emulated aspects of the United States drug strategy because they believe it produces a clearer, more direct approach to the problem; the British appointment of a United States-style drug czar in 1997 is a case in point. That the famously liberal Dutch policy on drugs disturbs rather than outrages its neighbors is largely thanks to the fact that the Netherlands has never actually legalized drugs but, as a matter of policy, opts not to prosecute most drug users.

Yet even within individual countries there is often little consensus on drug control. This range of opinion has produced vigorous debate about the allocation of resources for demand reduction programs, the policing of drug trafficking, and legalization and decriminalization. Strong opposition to

Even within individual countries there is often little consensus on drug control.

¹The three are the 1988 UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, also known as the Vienna Convention; the 1971 Convention on Psychotropic Substances, and the 1961 Single Convention on Narcotic Drugs.

drugs is always tempered or hampered, depending on one's point of view, by dissent.

France takes a strong anti-drug stance and for years has been the most vocal European critic of the more permissive drug laws of neighboring Netherlands. French President Jacques Chirac has ruled out any drug liberalization, and has insisted that France retain border checks on its northeastern frontiers to protect itself from Dutch drug trafficking and from "drug tourism" (French and German drug users taking advantage of more liberal Dutch policies by crossing the border to buy drugs). France's insistence on the dangers of the Dutch drug trade blocked full implementation of the EU's Schengen "Open Borders" agreement, which, in the interest of greater European integration, seeks to eliminate passport controls and customs checks among some EU member states.

Yet members of the French government voice dissent from the status quo even while their government commits itself to maintaining it. In the campaign preceding France's June 1997 parliamentary elections, now Prime Minister Lionel Jospin admitted to smoking marijuana and hinted that he favored decriminalization. Such an admission at election time suggests that he calculated that it might win him votes, or at least not lose him support. Environment Minister Dominique Voynet has said that she favors the legalization of cannabis, and readily admits to having smoked it herself.

Those who openly support decriminalization are backed by a vocal minority. A vigorous decriminalization campaign emerged after the 1997 British parliamentary elections to oppose the new Labour government's hard line on drug control; several hundred campaigners openly smoked cannabis in front of police in Hyde Park to protest drug laws. Earnest British students have made a folk hero of Howard Marks, a recently released British drug trafficker. Known in the drug trade as "Mr. Nice" (the title of his autobiography), Oxford-educated Marks was one of the most successful European drug traffickers of the 1970s and 1980s, responsible for importing millions of dollars worth of cannabis. Now, with a cottage industry of books, public appearances, television interviews, and web pages, he has popularized himself as a peculiarly British type of trafficker: a decent iconoclast with impeccable manners.

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While attitudes toward the principle of illicit drug use vary, attitudes toward drug users also differ. Many approaches that might be considered radical elsewhere in the world have been in use for decades. The so-called British system, whereby doctors can supply drugs to registered addicts, has been in existence since 1934. Europeans are generally amenable to the treatment of addiction with the regulated prescription of otherwise illicit drugs by the medical profession. In a September 1997 national referendum, 70 percent of Swiss voters approved a government plan to give regular doses of heroin to addicts after it was shown that Swiss addicts participating in an existing scheme committed 60 percent less crime.

Many of the more innovative approaches to drug abuse have been introduced at the substate level.

City governments have often produced alternative and experimental approaches to drug control. A transnational movement of European cities including Frankfurt, Hamburg, Amsterdam, and Zurich produced the Frankfurt Resolution, which supports the principles of "harm reduction." The resolution amounts to the decriminalization of drugs: under certain regulated conditions, users will not be prosecuted for drug consumption.

In the Netherlands, where the national approach is more liberal than in most countries, city governments' alternative policies have often been toward greater strictness. In the northern Dutch town of Kampen, the mayor threatened to resign last year if the council passed a motion approving the opening of a coffee shop within municipal boundaries, and in the town of Groningen, tougher regulations have reduced the number of coffee shops from 35 to 14 (the Dutch government has a famously liberal policy on drugs that permits the sale of cannabis in coffee shops). The Frankfurt approach also has opposition among city governments: the April 1994 Stockholm Resolution, entitled European Cities against Drugs and signed by the mayors of 21 European capitals, is an anti-drug response to the decriminalization that the Frankfurt Resolution proposes.

THE DUTCH "SOLUTION"

The Dutch policy allowing the sale of cannabis in coffee shops, which has been in place for more than 20 years, attempts to separate the markets for hard drugs (heroin, cocaine, and amphetamines)

and soft drugs (cannabis products). The intention is to prevent users from progressing from soft drug use to hard drug use when exposed to a criminal underground marketing both. Coffee shops in the Netherlands are allowed to sell small amounts of cannabis openly without fear of prosecution. Until recently, users could possess up to 0.5 grams of hard drugs or 30 grams of cannabis and not face arrest, unless the offender was also suspected of trafficking or another drug-related crime.

In the context of varying responses to illicit drugs throughout Europe, particularly in cities like Frankfurt and Zurich, the Netherlands does not regard its drug policy as especially radical. The Dutch government has said that its drug policy is little more than an attempt to formalize and regulate a type of decriminalization that is already *de facto* in force in Britain, France, Germany, and even the United States, where users possessing small quantities of soft drugs are rarely prosecuted. Implicit in this view is the sense that the Dutch government considers its neighbors to be hypocritical in their condemnation of its approach to drugs.

Other European countries have ruled that possession of soft drugs need not be an indictable offense. The German federal Constitutional Court in Karlsruhe ruled in March 1994 that an individual should no longer be prosecuted if found in possession of cannabis deemed to be for personal use. The Netherlands argues that Dutch policy takes this approach one step further by reasoning that if drug use cannot be eliminated, it is prudent to regulate its use.

In claiming success for the policy, the Dutch point out that the Netherlands has far fewer hard drug addicts (approximately 180 per 100,000 of the population) than neighboring France (280 per 100,000), and that in the last 20 years the number of Dutch cannabis users has remained stable, at around 600,000. They note that most Dutch heroin addicts are over 30, and that fewer younger people are taking up the habit. The Netherlands also claims success in certain public health matters: the government estimates that the number of deaths resulting from overdose, for example, is less than half that of most European countries.

Yet the Netherlands has, under duress, changed its liberal policy on illicit drugs. In 1995 a policy review recommended reducing the availability of soft drugs by limiting the number of retail outlets (some 1,200 coffee shops and an estimated 900 other unregulated points of sale). Serious drug users were required to undergo compulsory reha-

bilitation. Most dramatic of all, the amount of cannabis individuals could buy in coffee shops was reduced from 30 grams to 5.

The pressure for change came not from within the Netherlands but from its disgruntled neighbors, France and Germany, which objected to their own citizens crossing the Dutch border to buy drugs. The Netherlands had agreed to ensure that its neighbors were not inconvenienced by its drug policy, which was interpreted to mean surveillance of points of sale, especially in border regions. Cooperation with neighbors also meant large-scale police deployment to apprehend drug runners at borders and ports. In 1994 the Dutch police arrested more than 800 people at the frontiers for drug offenses. Greatly increased policing at the borders, however, did not satisfy French and German concerns, and their dissatisfaction led directly to the change in Dutch policy.

BEYOND RHETORIC: EUROPE AND MULTILATERAL COOPERATION

Some European countries are clearly disturbed by their neighbors' drug policies. However, the paradox of European drug policy is that, although European countries differ widely in their policies, they engage in far more multilateral drug cooperation than any other region in the world.

In comparison with the Europeans, not a single country in the Western Hemisphere has displayed more than a rhetorical commitment to multilateral cooperation. The Organization of American States' Inter-American Drug Abuse Control Commission has at times almost withered away for lack of attention and funding. When the commission wanted to set up a hemispheric network of drug information centers in the late 1980s, it turned to the EU for initial funding because it could not raise sufficient interest among its own member states. The United States spends little more than \$5 million a year for multilateral cooperation, which is loose change in a federal drug budget of \$16 billion in 1997. Although the United States has spent millions on drug control in Latin America, the funding is bilateral. The nations of Latin America might have supported United Nations International Drug Control Program (UNDCP) projects in their own countries, but otherwise have seldom looked beyond their own borders except to complain, albeit with some justification, about the catalyzing effects of the voracious American demand for drugs.

For more than a decade, the UNDCP has been mainly a conduit for European antinarcotics fund-

ing. Britain, Germany, the Netherlands, Belgium, and, in particular, Italy have all financed major UNDCP projects in alternative development (such as crop replacement, where farmers of coca and opium poppy crops are given assistance to allow them to produce licit crops instead), judicial assistance, and treatment, education, and rehabilitation programs. Without Italian support in the late 1980s and early 1990s, the UNDCP would not have been able to initiate projects in Latin America or even sustain them.

European countries have undertaken these tasks without sacrificing the integrity of their own foreign interests and responsibilities. The EU is far from being a unitary actor on the world stage, and in their external relations on drugs the countries of Western Europe do not necessarily have the same priorities. Britain, France, and the Netherlands have dependent territories and former colonies in the Caribbean that make drug trafficking and money laundering there a special responsibility. Spain is concerned about cannabis trafficking from North Africa and complains that Gibraltar, an adjacent British territory, is a transshipment point for drugs. Germany is less concerned about Gibraltar than about amphetamine trafficking from Poland and the Netherlands, and marijuana and heroin production in Central Asia. Multilateral cooperation only enhances their commitment to these individual priorities.

Inside the EU, countries are also risking the surrender of considerable sovereignty over law enforcement to facilitate multilateral cooperation on transnational crime. When EU member states committed themselves in the late 1980s to a Single European Market, they were voting for the free movement of goods, capital, and people throughout Western Europe. Most countries—only Britain, Denmark, and Ireland firmly refused—wanted to see open borders between EU members. Open borders, however, facilitate transnational crime as well as transnational trade, and a complex network of law enforcement measures to deal with the consequences of open borders, such as hot pursuit, cross-border surveillance, and refugee status, has gradually been put in place. The Europeans have also set up Europol. Formally proposed in June 1991, Europol was a German initiative originally envisaged as a European police force, but its intergovernmental status makes it far from a European version of the FBI. Instead, it remains an intelligence-sharing agency with no executive or inves-

tigative powers, a focal point for multilateral cooperation on drugs.

No one believes multilateral cooperation is easy. There are many difficulties in exchanging intelligence quickly and effectively among 15 (and soon to be more) countries with different languages and legal institutions. After several years of wrangling, the Europol convention has still not been fully ratified. There is resistance to the agency, based on profound misgivings about the ceding of sovereignty on law enforcement to the EU, and on the potential threat to civil liberties involved in the widening of police powers at the supranational level.

The new drugs and traffickers emerging from Europe are reason enough for the United States to analyze the drug situation in Europe closely. But the fact that the challenges of multilateral drug cooperation are being so directly and urgently addressed in Europe just as the Western Hemisphere countries are considering multilateral cooperation themselves means that they should also be looking toward Europe for an intimation of how truly regional drug cooperation might function. ■

COMING NEXT MONTH:

Africa

Our May Issue on Africa will examine Congo's first year after Mobutu and the "failed" states of Somalia and Liberia. Topics scheduled to appear include:

Congo under Kabila: The First Year

Peter Rosenblum, Human Rights Program, Harvard Law School

The New Leadership in Eritrea, Ethiopia, and Uganda: Despots or Democrats?

Marina Ottaway, Carnegie Endowment for International Peace

African Economic Development after the Asian "Flu"

Deborah Brautigam, American University

Liberia: From "Failed State" to...?

Terrence Lyons, Brookings Institution

South Africa: Mandela's Last Year

Michael Bratton, Michigan State University

Congo Republic: The Disintegration of Africa's "Little Switzerland"

John Clark, Florida International University

Japan's Growing Economic Role in Africa

Peter Schraeder, Loyola University of Chicago

Somalia: The Order beneath the Anarchy

Ken Menkhaus, Davidson College

Somaliland's Operation Bootstrap

Gérard Prumer, National Center for Scientific Research, Paris

THE MONTH IN REVIEW

February 1998

INTERNATIONAL

International Criminal Tribunal for Rwanda

Feb. 26—In Arusha, Tanzania, Major General Romeo Dallaire, former commander of the UN peacekeeping force in Rwanda, appears as a witness before the tribunal; Dallaire says that the 1994 massacres, in which some 500,000 Tutsis and moderate Hutus were killed by Hutu militiamen, could have been stopped if a small, well-armed UN force had been sent in early for that purpose.

Feb. 27—In Laredo, Texas, FBI agents arrest Eltzaphan Ntakirutimana on charges of genocide and crimes against humanity in Rwanda in 1994; federal district court Judge John D. Rainey issued a warrant for Ntakirutimana 2 days ago at the request of the tribunal.

Iraq Crisis

Feb. 2—Iraq announces that it has not reached an agreement with Russian special envoy Viktor Posuvalyuk; the Russian government earlier reported that a deal had been made on future UN weapons inspections.

Feb. 3—US Secretary of Defense William Cohen says the US will wage a "significant" military campaign against Iraq to thwart its ability to produce weapons of mass destruction if Iraq continues refusing to comply with UN weapons inspections; on January 13, Iraq blocked a UN arms inspection team from entering sites believed to contain biological and chemical weapons because 14 of the team's 16 members were British or American; UN economic sanctions were imposed on Iraq in 1990 and are not to be lifted until Iraq no longer possesses weapons of mass destruction.

Feb. 23—In Baghdad, Iraqi Deputy Prime Minister Tariq Aziz and UN Secretary General Kofi Annan sign an accord under which Iraq promises unlimited UN access to all sites suspected of containing weapons of mass destruction.

Feb. 24—At the UN, Annan announces that he has the Security Council's general approval of his agreement yesterday with Iraq; under the agreement, UN weapons inspectors will have "immediate, unconditional, and unrestricted" access to suspected weapons sites in Iraq but will be accompanied by senior diplomats appointed by Annan; Bill Richardson, the US ambassador to the UN, says the agreement is "a step in the right direction" but needs to be tested as soon as possible.

ALGERIA

Feb. 23—A bomb explodes on a train outside Algiers, killing 18 people and wounding 25; in other recent attacks, militants reportedly massacred 18 shepherds in western Algeria.

ARMENIA

Feb. 3—President Levon Ter-Petrosian resigns; Ter-Petrosian had recently urged concessions in the ongoing Armenian-Azerbaijani dispute over the enclave of Nagorno-Karabakh, which declared independence from Azerbaijan in 1988 as a step toward eventual union with Armenia; Prime Minister Robert Kocharian has accused Ter-Petrosian of making too many concessions.

Feb. 5—Parliament accepts the resignations of Ter-Petrosian and the speaker of the parliament, effectively ceding power to Kocharian.

AUSTRALIA

Feb. 13—A constitutional convention in Canberra votes 89 to 52 to sever Australia's 210-year-old ties to the British monarchy and establish a republic by 2001.

BOSNIA AND HERZEGOVINA

Feb. 2—The New York Times reports that the Bosnian Serb Republic parliament voted 2 days ago to move the seat of government from Pale, the stronghold of hard-liners loyal to indicted war criminal Radovan Karadzic, to Banja Luka, the center of Bosnian Serb President Biljana Plavsic's support.

Feb. 14—Bosnian Serb war crimes suspects Milan Simic and Miroslav Tadic surrender to NATO peacekeeping forces in Tuzla; they are the 1st Bosnian Serbs to do so voluntarily.

Feb. 18—Bosnian Serb war crimes suspect Simo Zaric says he will surrender to the International Criminal Tribunal on War Crimes in the Former Yugoslavia; he, like Simic and Tadic, who surrendered 4 days ago, is 1 of 6 men from the northern town of Bosanski Samac accused of organizing a "campaign of terror" and killing against non-Serbs there.

NATO agrees to extend indefinitely its peacekeeping mission in Bosnia at the current level of about 35,000 troops; the troop level could be significantly reduced after national elections in Bosnia later this year.

BURUNDI

Feb. 21—Meeting in Kampala, Uganda, the presidents of Ethiopia, Tanzania, Rwanda, and Uganda and the head of the Organization of African Unity unanimously agree to maintain regional economic sanctions on Burundi until it moves toward civilian rule; Burundian President Pierre Buyoya seized power in a 1996 coup.

CAMBODIA

Feb. 27—Troops loyal to Hun Sen, who seized power in a coup last July, and resistance forces loyal to Prince Norodom Ranariddh declare a cease-fire; in Bangkok, Ranariddh says the truce, part of an agreement brokered by Japanese mediators, should enable him to return to Phnom Penh to contest elections scheduled for July; Ranariddh fled Cambodia just before the coup ousted him as Hun Sen's co-prime minister.

CHINA

Feb. 7—Christian activist Gao Feng is released after more than 2 years in prison; Gao says he was not allowed to practice his faith while in prison.

Feb. 9—A Hong Kong-based human rights group says that Wang Bingzhang, a US-based dissident who was detained in China after reportedly trying to form an opposition party there, has been released and flown to the US.

Feb. 14—An explosion on a bus kills at least 16 people and wounds at least 30 in Wuhan in Hubei province; no group takes responsibility.

violence since faction leaders announced a truce 2 weeks ago; Somalia has been without a central government since the overthrow of President Mohammed Siad Barre in 1991.

SRI LANKA

Feb. 6—A suicide bomber kills herself and 8 other people at a military checkpoint in Colombo; there is no immediate claim of responsibility.

SUDAN

Feb. 4—The UN World Food Program begins airdropping 32 tons of food in southwestern Sudan for some 150,000 people recently displaced by fighting between the rebel Sudan People's Liberation Army and government forces; an estimated 1.3 million people have died since 1983 when civil war broke out between the Arab, mostly Muslim north and the mainly Christian, black south.

TURKEY

Feb. 13—Prosecutors in the southeastern city of Diyarbakir charge Istanbul Mayor Recep Tayyip Erdogan, a leader of the now banned Welfare Party, with attempting to undermine national unity and "using democracy to establish an evil order"; the charges stem from a pro-Islamic speech he made last year.

A prosecutor in Ankara orders the arrest of all 57 members of the directorate of the People's Democracy Party, a pro-Kurdish organization.

Feb. 16—The Education Ministry announces that religious schools have been ordered to stop allowing female students and teachers to wear Islamic head scarves; the scarves have long been banned in public institutions.

Feb. 25—Security forces in Diyarbakir capture a Cypriot man who yesterday hijacked a Turkish Airlines flight intended for

Ankara; the man, apparently from the Turkish portion of Cyprus, had claimed he had a bomb and demanded to be flown to Teheran.

UNITED KINGDOM

Northern Ireland

Feb. 20—The British and Irish governments expel Sinn Féin, the political wing of the Irish Republican Army (IRA), from the Northern Ireland peace talks because of evidence that the IRA was behind the February 10 killings of 2 men in Belfast; the party is to be readmitted to the talks on March 9 if the IRA refrains from further violence.

Hours after the announcement of Sinn Féin's expulsion, a car bomb explodes outside a police station in the predominantly Protestant village of Molra, southwest of Belfast, injuring 11 people; no group claims responsibility for the attack.

Feb. 23—A car bomb explodes in Portadown, injuring no one, the Continuity IRA, an IRA splinter group thought to be responsible for the bombing in Molra 3 days ago, is suspected in this attack as well.

UNITED STATES

Feb. 26—In its annual review of 30 countries considered key to the production or transportation of illicit drugs, the administration of President Bill Clinton "certifies" that the Mexican government is cooperating fully with US drug enforcement programs; Colombia, Pakistan, Paraguay, and Cambodia are "decertified" but given national security waivers under which penalties—the withholding of US aid and votes against development loans for decertified countries in international lending groups—are not put into place; Afghanistan, Burma, Nigeria, and Iran are also denied certification but not given waivers.

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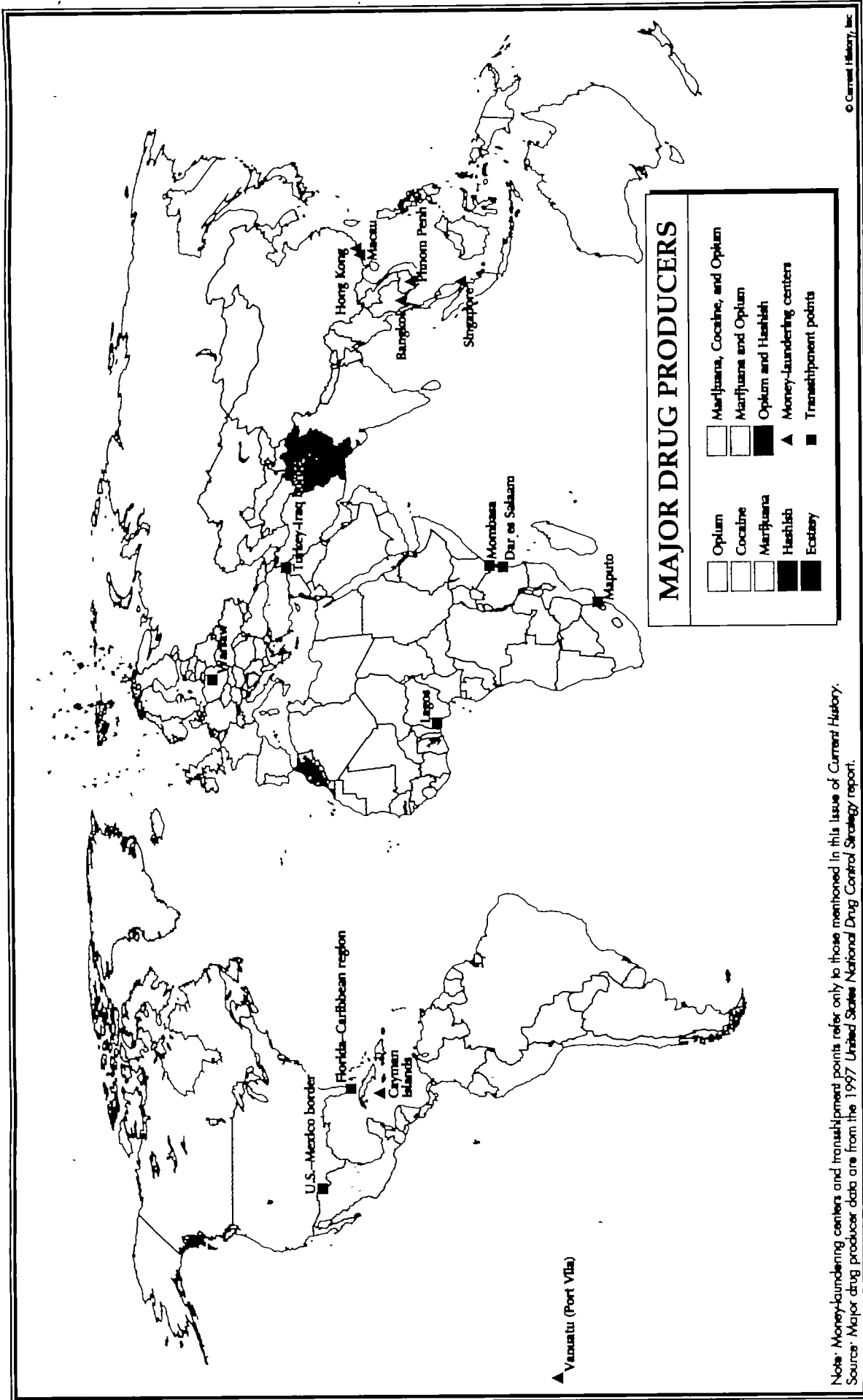
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Note: Money-laundering centers and transshipment points refer only to those mentioned in this issue of Current History.
 Source: Major drug producer data are from the 1997 United States National Drug Control Strategy report.

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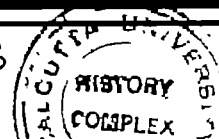
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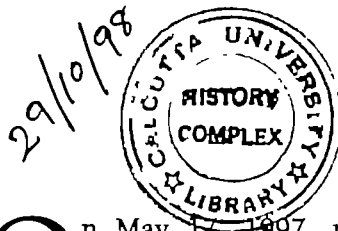
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"Recent months have seen the pace of repression increase in Congo. Human rights reports have been seized and activists intimidated and beaten. Political figures have been arrested or, in the case of Étienne Tshisekedi, sent into internal exile. . . Yet the political space created by seven years of opposition to Mobutu endures. . . Judging by [President Laurent] Kabila's recent course, this space will last only until he can close it with impunity."



Kabila's Congo

PETER ROSENBLUM

On May 17, 1997, rebel troops of the Alliance of Democratic Forces for the Liberation of the Congo swept into the capital city of Kinshasa, bringing to an end the rule of Mobutu Sese Seko and erasing the name of Zaire from world maps. The speed of the victory took everyone by surprise. Fighting had begun only seven months earlier when a little-known group of Zairian Tutsi, the Banyamulenge, stood up to corrupt local authorities in eastern Zaire who had threatened to seize their property and eject them from the country. Few people believed it possible that a rebel army could cross the nearly roadless expanse of more than 1,000 miles in that amount of time, much less conquer it.

But besides grand gestures, like changing the name of the country to the Democratic Republic of the Congo and declaring the rebirth of democracy, liberation from Mobutu has not assured lasting victory for the new self-proclaimed president, rebel leader Laurent Kabila. Kabila has enjoyed the world's shortest honeymoon, as one commentator put it. Almost before it began, there was a threat of international isolation because of reports alleging massacres of Hutu refugees fleeing west to escape Kabila's Tutsi-dominated rebels. Moreover, many Zairians were not prepared to accept the authority of the rebels merely by virtue of their military victory. For seven years the people of Zaire had been

struggling to liberate themselves without the use of arms. They had developed a culture of resistance that had undermined the authority of the Mobutist state—and could do the same for Kabila.

Finally, there is the problem of Kabila himself, whose awkward attempts to consolidate power and establish political legitimacy bear an eerie resemblance to the actions of his predecessor. The president's efforts are losing him friends without winning over many enemies. His allies abroad are beginning to take their distance. Even the Banyamulenge—the war's supposed victors—threatened rebellion in early March. While that problem has been defused for the moment, renewed conflict in the east, triumphalist arrogance in the west, and a general sense of political incoherence have made for an inauspicious start to Kabila's vaunted republican rebirth.

REBELS FOR WHOSE CAUSE?

Although the speed of the rebel advance was surprising, the eventual outcome—at least on the battlefield—was determined at least two months before Kinshasa fell. The unpaid, untrained, and unmotivated troops of the Mobutu regime were never a match for the rebels and their battle-tested foreign allies coming from Rwanda and Uganda. After the rebels took Kisangani on March 15 of last year, handily defeating the "thunderous" counter-attack Mobutu's generals had promised, what followed was a war of public perceptions. Zairians had initially rallied around Mobutu and against what they believed to be a foreign invasion. But Mobutu,

who feared the internal opposition more than the rebels, squandered public support. Meanwhile, Zairians willed themselves into backing Kabila. With its predictable pattern of rape and pillage, the retreating Zairian army further pushed the population toward the rebels. One city after another offered itself up without resistance until Kabila's forces reached the gates of the capital. There the rebels were delayed for a few days, forcing a last-minute race with the cancer that was consuming Mobutu's body. The rebels won the race, but just barely. It is said that Mobutu, who died four months later in exile in Morocco, never fully realized what had happened to him.

From the beginning of the war, Kabila's troops were plagued by suspicion of foreign domination. Despite frequent denials, few doubted the importance of Rwanda and Uganda in initiating and pursuing the war. Rwanda in particular had made its interests clear. More than a million Rwandan refugees, rebel soldiers, and militia members, many of whom had participated in the 1994 genocide of Tutsi and moderate Hutu, were camped in Zaire along Rwanda's border, providing a fecund source of insurgency. By threatening the Banyamulenge—a Tutsi community that had been in Zaire for more than a century and whose members did not even live near the recently encamped "*genocidaires*"—Zairian authorities handed the Rwandans a local ally and a useful cover for their operations.

But there was also strong reason to suspect that the Rwandan government or its Ugandan allies had fashioned the alliance that put a Zairian face on the rebellion. This would have been sensible. Ethnic Rwandans are simply viewed as foreigners by most Zairians. Zairians thus reacted with suspicion when Laurent Kabila, a dubious figure from the independence era—but indisputably Zairian—suddenly emerged as spokesman for the rebellion.

Kabila's mixed reputation derived from his early years as a guerrilla fighter and the intervening silence. A recent biography of Che Guevara conveys a picture of Kabila as an undependable ally, mysteriously absent from the scene of battle when Che brought a group of Cubans to Zaire to aid Kabila's fight in 1965. Since then Kabila had remained largely invisible, staging a few daring attacks but reportedly spending most of his time in Dar es Salaam, surviving from trafficking in minerals. It is not even clear that Kabila brought any troops into the alliance, further contributing to suspicion about his backing. Nevertheless, his credibility increased as the rebels progressed, picking up recruits and

publicity along the way. Ironically, given later events, Kabila's cause was given a major boost by opposition leader Étienne Tshisekedi, who stood up for him against the xenophobic wave that had hit the capital.

As the rebellion gathered momentum, other countries joined in backing the rebels. Angola provided essential logistical support as well as troops. Zimbabwe and Zambia also provided assistance. But the Rwandan presence remained the most obvious, the most controversial, and the least acknowledged until Rwandan leader Paul Kagame himself decided to break the silence two months after liberation. By then, any visitor to the seat of government in Kinshasa—the Intercontinental Hotel—would have been struck by the presence of Rwandan soldiers and businessmen, most of whom did little to hide their origins. Then there were Kabila's "bodyguards"—"six tall, English-speaking gentlemen," as one visitor described them—not Zairian and not necessarily there to protect him.

BUILDING ON THE PAST

The end of the rebellion came quietly and almost without violence. This was due in part to the organized restraint of the population—the churches in particular—but significant credit also goes to Mobutu's chief of staff, a popular military leader who maintained order to the end. General Marc Mahéle was a rare figure in the army: faithful to President Mobutu but trusted by the people, especially since the 1992 National Conference, where he had declared the army's support for the democratic process. He was no radical democrat, however. And it is ironic that his efforts made him a "martyr to peace," as the archbishop of Kinshasa declared at his funeral. On the night of May 16, hours before Kabila's Alliance of Democratic Forces for the Liberation of the Congo (ADFL) entered Kinshasa, he attempted to stop soldiers from pillaging the city. At Camp Tshatshi, the base for Mobutu's Special Presidential Division, he was executed—reportedly by Mobutu's own son.

With its troops in the city and Mobutu in flight, the ADFL solemnly declared its right to govern and Kabila's authority as president. On May 28, Kabila issued a one-page decree establishing the new constitutional order. It was broad and vague, granting nearly absolute power to the president.

On May 29, Kabila was sworn into office in the presence of dignitaries from around the region, including the presidents of Angola, Uganda, Zambia, Rwanda, and Burundi. A rumor spread that the

head of the Supreme Court had gotten the president's name wrong during the swearing-in, accidentally calling him "Laurent-Désiré Mobutu." In his inaugural speech Kabila was already consumed with resentment of his critics. "Whether we like it or not," he said, the Third Republic had begun, suggesting that everything that came before, including the National Conference, a process and event that was unassailable for most Zairians, belonged to Mobutu's "Second Republic." "We do not support the maneuvers of this so-called sovereign conference," he said. Without naming names, he lashed out at the political opposition in Kinshasa, mocked the proliferation of parties under Mobutu, and dismissed the demand for immediate elections on the grounds that it would perpetuate Mobutism. Then, after warning citizens about focusing too closely on timetables, he laid out his own, beginning with a constitutional commission and ending with elections in two years. "It is promised," he said. "Be assured that these dates will be respected." By September 1, the first three deadlines had all been missed.

LEGITIMATION CRISIS

Much of Kabila's rancor might be explained by his struggle for political legitimacy with Étienne Tshisekedi. Tshisekedi was Mobutu's most steadfast and well-known opponent, living for years under house arrest or in internal exile. He was also elected in August 1992 by the National Conference to lead a transition government. After he was effectively displaced by Mobutu, he and his supporters clung to the legal fiction that he remained prime minister by virtue of the National Conference. Kabila could hardly have endorsed the conference without accepting Tshisekedi, although had he done so, he would have gained the immediate support of a vast part of the population for whom the National Conference remained the one legitimate political basis for transition.

The rejection of Tshisekedi did not occur at once. During the fighting, tentative efforts to create an understanding between the two leaders collapsed in mutual recriminations. Strangely, the resentment revolved around an unanswered phone call from Kabila to Tshisekedi during which he was reportedly in the bathroom. But once the alliance arrived in Kinshasa, its leaders seemed intent on driving Tshisekedi away. Kabila's advance man in Kinshasa, Deogratias Bugera, a Zairian Tutsi with designs on the job of prime minister, was sent to

"negotiate" with the opposition leader. Kabila himself never met with Tshisekedi. Eventually, Tshisekedi reacted to the insult by rejecting the government and publicly appealing to the xenophobia that he had previously helped to allay.

Acknowledgment would have been awkward for another reason. Kabila's strength and ideological commitment are based on pan-Africanism and regional solidarity. In many ways he seems frozen in the 1960s events that formed him intellectually, including the betrayal of Patrice Lumumba, the independence leader whose death is attributed by many to the CIA. But for most Congolese—who were not even born when he was killed in 1961—Lumumba is no more than a distant historical figure. It is life under Mobutu, not the struggle against imperialism, that shaped their psyches. Civil society, which promoted the National Conference and remains its strongest proponent, is deeply tied in its

thinking and its sources of support to the West. It is in essence a liberal, pluralist movement linked through churches, nongovernmental organizations, and donors to the United States and Western Europe. For Kabila, this is both foreign and potentially threatening.

Many of Kabila's closest advisers also arrived with a rhetoric intact from the 1960s liberation struggles and a willing-

ness to apply it to economics, politics, and morality. ADFL reeducation programs followed the rebels across the country, offering a muddled Marxist analysis of Congolese society to the vast crowds that gathered to hear. The programs' 10 "lessons" explain the failure of the Lumumbist revolution (over-reliance on foreign support and ethnic particularism, among other reasons), the purpose of the renewed struggle (to seize power), and the meaning of class struggle.

It is unclear how the lessons relate to the country's mass impoverishment and economic stagnation. The solution offered by many of Kabila's advisers is an economic development program based on authoritarian centralized planning. Some of the "new" ideas even predate independence. A month after taking power, Kabila's chief of staff, Aubert Mukendi, a venerable intellectual and courageous figure in the Zairian opposition, crafted a vision of enforced building and agricultural development taken intact from his childhood under the colonial authority. When asked why the Congolese would conform to this script, he spoke glowingly of the whip, which had made its appearance in the

In his inaugural speech Kabila was already consumed with resentment of his critics.

first weeks following liberation. It was by the whip that soldiers brought calm to the airport, imposed summary justice in city neighborhoods, and set out to enforce a new and foreign moral code.

The short-lived effort to install a new morality was one of the most peculiar contributions of the alliance. Although the stories were certainly exaggerated, even Mukendi spoke with relish of drunken men whipped in front of their families. Girls were whipped and undressed in public for wearing clothes deemed indecent. The people, however, appear to have quickly convinced the authorities to give up the whip.

THE LESS KNOWN OF TWO EVILS

The bitter public reaction to Kabila's rule hid the delicate psychological transition that was under way. There was certainly exhilaration at the departure of Mobutu and his thugs. Overnight, the daily extortion and official banditry had come to an end. Yet the demon Mobutu had defined political life for more than 30 years; it was hard to adjust.

The confusion was evident wherever people gathered. A group of civil society organizations from around the country met in June, barely a month after the ADFL took power. One speaker after another tripped over the name of the country—and this was one of the popular changes. The tone of resentment was unchanged from a month before. It sometimes seemed as if Kabila was being blamed for problems that had existed for 20 years.

But in some ways the situation really had grown worse. The struggle to survive Mobutism and replace it had given birth to one of the most dynamic civil societies in all of sub-Saharan Africa. Human rights groups, women's organizations, development groups, and church activists throughout the country had grown in confidence and prominence through the struggle. They transformed the system: holding government abuses in check, negotiating the release of detainees, providing assistance to prisoners abandoned by the state. Whatever functioned in Zaire did so because of informal networks, frequently operated by civil society.

Suddenly the networks were closed. No one knew the name of the local military commander or whether he spoke a familiar language. A new band of security police, political operatives, and military authorities had come to town. In many cases they were struggling among themselves for control. It

isn't surprising that the population could not figure them out.

Out of suspicion or misunderstanding, the new leaders exacerbated the problems. It was common knowledge that judges and prosecutors were corrupt, so in a number of areas the alliance leaders closed the courts and turned matters over to the newly formed internal security service—most of whose rank and file came from the old security service. From the outside it looked like a return to the way Mobutu had run the justice system for 20 years. As local residents knew, corruption was a relative matter. So long as the nongovernmental human rights groups kept their eyes on the courts and maintained access to detention centers, the most flagrant violations were avoidable. In many regions the new authorities backtracked quickly and turned matters over to the courts, although they continued to block prisons and detention centers.

People also felt distanced from the new government, which was packed with returning exiles, unfamiliar with and suspicious of the events of recent years in the country. The minister of justice had spent his entire career in Belgium; the minister of cooperation, in the United Kingdom; and the minister of the interior, in the United States. A number of ministers had dubious histories. Minister of Justice Celestin Lwangy, for example, was implicated in a legal scandal in Belgium. The minister of cooperation, Thomas Kanza, was persona non grata in the United States, where he had lost and refused to pay a substantial court judgment. They were oblivious to the grating impact of their return. One official of the Ministry of Reconstruction shocked the June gathering of civil society by calmly explaining that he had left 20 years earlier because it was impossible to live in the country.

BLOOD ON MANY HANDS

The Congolese were not alone in struggling to understand and cope with their new leaders. The United Nations was involved in a similar struggle with suspicious and uncooperative government officials. It did not help that the first area of contention was the fate of Hutu refugees reportedly massacred during the rebellion. On August 24, 1997, a team of UN investigators arrived in Kinshasa to begin investigating the massacres. It was a long and tortuous path that had led to their arrival. In deference to the new government, UN Secretary General Kofi Annan made unprecedented compro-

Mobutu had defined political life for more than 30 years; it was hard to adjust.

mises, shaking up the UN human rights apparatus and raising his personal stake in the outcome. By the time the team arrived, the investigation had become the single most important test of the new government's legitimacy; the United States and the European Union had explicitly conditioned aid on cooperation with the investigation.

The war and the refugee problem were inextricably linked. Whatever Kabila's goal, ending the security crisis along their borders was the central war aim for Rwanda, Burundi, and Uganda. The international community was in an awkward position. Although it recognized the security threat posed by the Hutu refugees—and its impotence in ending it—it continued to treat the problem as primarily a humanitarian concern. As fighting displaced refugees in southern Zaire and moved closer to the camps in the north in the fall of 1996, pressure mounted for a multilateral force to create safety corridors to allow refugees to return home or seek asylum elsewhere. Already skeptical of the international community's motives, regional leaders were let down entirely when it turned out that the multilateral force would not even disarm the returning Hutus. In a race with Canadian UN envoy Raymond Chrétien, who was in the region to negotiate the terms of the intervention, the rebel forces deftly attacked the refugee camps, sending as many as 600,000 Hutus racing into Rwanda in November 1996 in what constituted the largest "voluntary" return of refugees in history.

At that moment, the United States ambassador to Rwanda, Robert Gribben, a staunch backer of the Rwandan government, declared the refugee problem settled. The momentum for an international force disappeared. Still, as many as 450,000 refugees were unaccounted for, presumably fleeing into western Zaire. Refugee organizations were critical of both the ADFL and the United States, accusing the latter of disinformation.

In February and March 1997, refugees began to stream out into the open, creating makeshift camps nearly 400 miles west of where they had begun their trek. Though many had died and others were frail, the mystery was solved and tensions began to dissipate, until one camp after another was attacked and refugees further dispersed. One of the most dramatic incidents occurred just south of Kisangani where about 80,000 refugees had gathered during the month of April. Rebels claimed villagers attacked the refugees after Hutu militants killed six local people. For four days, rebel troops sealed off the area. Afterward, all evidence of the camps and refugees

disappeared. Many of the refugees continued 600 miles farther, through extraordinarily hostile terrain without dependable roads, to arrive in the western Zaire province of Equateur. There, in mid-May, in and around the provincial capital of Mbandaka, the best-documented slaughters occurred.

Meanwhile, Kabila was busy holding off an international investigation into the massacres. A preliminary report issued on April 2, 1997, by UN Special Rapporteur Roberto Garretón identified 40 massacre sites in eastern Zaire and recommended further investigation. The Commission on Human Rights, the UN's principal human rights body, called on Garretón to direct an investigation together with two other high-level UN rapporteurs. When they traveled to the region with forensic experts in early May, the investigation was blocked. In the first of many excuses to follow, Kabila's team accused Garretón of bias and insisted that he be replaced.

There was a telling irony in the attack on Garretón. If he had a failing, it was to err on the side of the activist. But he did so with equanimity. He had been among the first and most significant figures to call attention to the problems faced by the Banyamulenge, an unpopular cause among Zairian activists at the time. His past efforts were entirely overlooked by the ADFL leaders. United States diplomats gave support to the ADFL claims, accusing Garretón of speculative reporting and a lack of balance.

Stranger still, however, was the behavior of Secretary General Annan, who gave in to the pressure in the least diplomatic way, essentially brushing Garretón aside to create a separate investigative mission under his own authority. In any event, the Congolese government quickly saved Garretón's reputation by inventing new reasons to obstruct the investigation. Within days of its arrival in Kinshasa, the authorities objected to the composition of the new UN team led by the former president of the Supreme Court of Togo, Atsu-Koffi Amega, rejected the unarmed UN security personnel, and insisted that the mission await a parallel investigation by the Organization of African Unity. Once these hurdles were overcome, new ones were found. Finally, the team sought to begin the investigation only to find that travel agents were prohibited from selling them tickets.

The battle erupted into the open over the team's plan to begin the investigation in the area of Mbandaka, the site of the most recent massacre reports and the one area in which no security protection would be necessary. There was no reasonable argument against doing so. Nevertheless, the team received little sympathy—in fact, United States and

UN officials complained of the obstinacy of the team members. An intense lobbying effort was launched in Kinshasa and New York to force the team to back off from Mbandaka.

On October 1, Annan recalled the team for consultations, during which time Kabila again agreed to all the terms of the investigation, including Mbandaka. On November 11, the team returned, only to face further delays. Once it finally deployed to the field, staged protests stopped its work. Finally, at the end of March 1998, after a series of arrests, harassment, and the mysterious disinterring of bodies from a mass grave site, the UN complained, the forensic experts withdrew, and, in early April, the secretary general again suspended the mission. By then interest in the investigation had flagged and the failure of the mission went almost unreported in the international press. The government, meanwhile, denied that there were any problems and accused the UN of trying to destabilize the country.

"YOU HAVE TO HELP US HELP YOU"

The massacre investigation was an unfortunate test of Kabila's government since most observers, foreign and Congolese, do not believe Kabila or the ADFL had much to do with the refugee massacres—except to the extent that they fought a proxy battle for Rwanda. Circumstantial evidence suggests that Rwandan soldiers—especially Rwandan officers—were on the spot where massacres occurred. Local residents recall names like "Commander David" or "Colonel Wilson" and soldiers who spoke neither French nor any other Zairian national language—except Swahili, which is widely spoken in the Ugandan and Rwandan armies. Moreover, the Zairians would have had little motivation to slaughter Hutus.

If this is true—or even partially true—then Kabila probably could not have allowed the investigation even had he wanted to. The "six, tall, English-speaking men" alone would see to that. The pressure placed on Kabila merely forced him to behave unreasonably, souring future relations with the international community.

This explains in part why American diplomats tried to make Kabila look good. But it begs the question of why the United States put no public pressure on Rwanda either during or after the massacres. By 1995 there was a strong pro-Rwanda lobby in the State Department and an outspoken ambassador (Robert Gribben) in the field. The United States had become Rwanda's primary sup-

porter in the international community and viewed the war sympathetically. It knew that Rwanda was training Zairian Tutsis and planning to break up the refugee camps. The most damning praise came from Paul Kagame, who told the July 9, 1997, *Washington Post* that the United States took "the right decisions to let it proceed." Before Kagame acknowledged to the *Post* that his troops had fought in Zaire, the American ambassador was one of the last people still denying it.

In contrast to its interest in Rwanda, the United States had substantially withdrawn from Zaire. Since 1991 the American embassy in Kinshasa had operated with a nearly skeleton staff. Aid to the government had stopped. With the reduced investment came bureaucratic disengagement. It was hard to find two people in the State Department in Washington who followed Zaire on a daily basis.

When the war broke out, there was an almost comic contrast between the messages coming from Kigali, where the United States embassy supported the war, and from Kinshasa, where Ambassador Daniel Simpson attacked it as a foreign invasion. As the war progressed, the United States role remained confused, and bureaucratic turf battles erupted between the two embassies. While foreign allies (and rivals) such as France saw a coherent plan to back Kabila and bring in United States business, the most significant United States diplomatic initiative—negotiations to bring Mobutu and Kabila together to negotiate a cease-fire—would have effectively stopped Kabila and revived the authority of Mobutu. Only Mobutu's obstinacy and the incompetence of his team kept the negotiations from proceeding. When the negotiations collapsed, Kabila was left standing arm in arm with President Nelson Mandela, the most powerful endorsement of his new statesman status.

The next boost to Kabila's fortunes also came from the United States. One month before the fall of Kinshasa, Kabila signed a nearly \$1 billion contract with American Mineral Fields (AMF), a Hope, Arkansas-based mining firm. The effect was explosive: a company from the hometown of the United States president, a contract for more money than anyone had invested in the country for 20 years, and all for a rebel leader who was still hundreds of miles from the capital. Zairians immediately saw the hand of the United States government behind the deal. So, it turned out, did Europeans and Canadians.

Not surprisingly, little if any money actually flowed into Kabila's hands as a result of the contract or any other deals he had struck with mineral com-

panies. In fact, relations with AMF soured soon after Kabila took power. The contract with AMF was partially renounced, and lawsuits were threatened. At that point money was changing hands for speculation, lawyers' fees, and payoffs, but there was no sign of actual investment in the country.

When Kabila finally came to power in Kinshasa, the United States was committed to supporting him but was hamstrung by congressional limits on aid and frustrated by attacks from the human rights community. The United States did help organize meetings of donors in conjunction with the World Bank to create a multinational fund to support development projects in the country. It also developed an innovative plan to support locally based efforts, using former Peace Corps workers and others with strong personal links to the country.

In December, Secretary of State Madeleine Albright traveled to the region in an attempt to focus attention on Africa's "new leaders"—the military men who had taken power in Uganda, Ethiopia, and Rwanda—and, implicitly, to draw Kabila into that circle. Her trip was aimed in part at building momentum in Congress to overcome skepticism about aid to Congo. Unfortunately, Kabila refused to behave, embarrassing the secretary of state and setting in motion a process that appears to be unraveling United States support for the leader. At a joint press conference, the secretary of state tried deftly to deflect questions related to the political repression occurring in the country. Kabila, however, used the opportunity to denounce the political opposition and promise further measures to control it. He then turned to Albright with what journalists took to be a mocking grin and declared, "*Vive la démocratie.*"

In any case, Africa's "new leaders" were not so sure that they wanted to include Kabila in the club. It turned out, surprisingly, that they, too, viewed Kabila as inconsistent, undependable, and paranoid—surprising because, until then, people believed these leaders represented Kabila's power base and that any paranoia was aimed at the West.

Albright returned from the trip defensive, disturbed more by the bad press than the erratic behavior of her host. She was intent on pursuing a personal dialogue with Kabila, as she had announced in Kinshasa. The opportunity presented itself two months later. Jesse Jackson, President Bill Clinton's special envoy to Africa to promote democracy, chose to visit Congo, where in addition to government officials he would meet with leaders of the

opposition, including Étienne Tshisekedi. Kabila and Foreign Minister Bizima Karaha repeatedly postponed their meeting with Jackson and then, after his meeting with Tshisekedi, denounced Jackson for violating diplomatic protocol. Soon afterward Tshisekedi was arrested and sent—with a combine harvester and some seeds—into internal exile. (In announcing the measure, Agriculture Minister Mawapanga Mwananga said that "Étienne Tshisekedi's patriotic sense and capacity as a leader must be put to use by making him contribute to the attainment of food security in our country.")

Tshisekedi's arrest was probably inevitable, although Jackson's visit must have irked Kabila. After the arrest Albright called Kabila and reportedly spoke to him for 40 very unsatisfying minutes. By the time President Clinton visited the region in late March, the possibility of including Congo on the itinerary was entirely excluded. Even a meeting with Kabila was controversial. And the message that Clinton conveyed, "We want you to succeed, but you have to help us help you," sounded like a last plea to save a broken friendship.

POCKETS OF RESISTANCE

Recent months have seen the pace of repression increase in Congo. Human rights reports have been seized and activists intimidated and beaten. Political figures have been arrested or, as in the case of Étienne Tshisekedi, sent into internal exile. Even Clinton's plea appeared to have had little effect. Soon after Kabila returned from meeting with the president, he banned the nation's leading human rights organization and denied legal registration to more than a hundred others, arrested a leading journalist, picked a fight with Belgium, and accused the United Nations of subversion.

Yet the political space created by seven years of opposition to Mobutu endures. The press headlines its opposition and community groups speak out and publish their positions. The churches remain a base of independent thinking. In the government itself there is a core of bright, well-intentioned young cadres who retain their earlier hope of effecting positive change. Whether their efforts and the space for freedom survive is increasingly unlikely. Judging by Kabila's recent course, this space will last only until he can close it with impunity. Unless his erstwhile regional allies help him see his way to a new policy of inclusion, they may soon be in the position of trying to contain new security threats emanating from Congo. ■

United States policy toward Africa has been "more opportunistic than strategic. What is missing is a framework that incorporates the subregional context within which African states are attempting to make economic and political progress."

Thinking Regionally About Africa

SALIH BOOKER

President Bill Clinton's historic trip to sub-Saharan Africa this March heralded the advent of a more committed and better-informed American engagement with the continent. Improved growth rates, continued democratic reform, and the end of many long-standing conflicts have also given rise to a new, if cautious, optimism about Africa's prospects. These trends are increasingly cited as evidence of an African renaissance. While the continent's challenges should not be understated, the optimists are not far off the mark: Africa is experiencing a second independence.

United States policymakers and the private sector have taken notice and are beginning to reassess America's interests in trade, investment, security, and political change in Africa. The academic community and other constituencies concerned with human rights, development, and environmental issues are also speaking of Africa in terms of renewal. And the African-American community, politically strategic for the future of United States policy, is experiencing a revival of interest in and engagement with its ancestral homeland.

Bedeiling this acknowledgment of Africa's importance is the absence of a framework organizing United States relations and interests on a continent whose size, diversity, and complexity defy a single approach. Policymakers, business leaders, financial investors, NGOs, and the public require a model that disaggregates Africa's 53 sovereign nations and allows a more coherent management of relations with them.

A reasonable approach to "unbundling" Africa is to start thinking in terms of five distinct subregions. Official policy and other forms of American engagement could then be organized around three areas where there are concrete national interests—economic development, security, and democracy—

in each of these subregions. This approach would also help Americans distinguish between a handful of traumatized countries in one region and countries achieving significant positive change elsewhere on the continent.

On the economic front, Congress and the Clinton administration have advanced a new approach for promoting greater trade and investment with Africa. This has given rise to a debate about the right mix of development assistance, debt reduction, trade incentives, and investment promotion needed to support economic growth and sustainable development in Africa. A consensus has emerged, reinforced by the positions taken by African leaders during the president's spring trip, that all four elements are required and that trade and investment alone are not an alternative to increased development cooperation and debt relief.

On the security front, the administration has continued its year-old African Crisis Response Initiative by providing training and communications equipment to select African armies (Uganda, Senegal, and Malawi in 1997, and Mali, Ghana, and Ethiopia this year). Critics have questioned whether such support can be used to mobilize a regional force to perform peacekeeping or other conflict prevention or resolution roles. The implementation of this initiative has, however, created a new discussion of United States security cooperation in Africa that also raises important issues about how to define American national security interests on the continent.

On the third front, political reform or democratization, the Clinton administration has not offered a particular framework supporting African efforts to establish more accountable governance guided by the rule of law and respect for human rights. The centrality of this problem in priority countries such as Nigeria and the Democratic Republic of the Congo (the former Zaire) has forced a rethinking of assumptions about the course of political change in Africa. The emphasis has shifted from the mechan-

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ics of multiparty elections to issues of legal and constitutional reform and the role of civil society.

In debating how the United States should engage Africa on these three fronts, suggestions have tended to emphasize partnerships with “successfully reforming states,” high GDP growth countries, and nations whose leaders are considered to represent a new generation of African leaders, such as Eritrea, Ethiopia, and Uganda. These approaches are more opportunistic than strategic. With the exception of the discourse on Central Africa, they lack a comprehensive assessment of larger regional realities. What is missing is a framework that incorporates the subregional context within which African states are attempting to make economic and political progress.

HOW TO THINK REGIONALLY

A framework for thinking regionally about Africa should have as its goal the promotion of United States interests in all five regions of the continent. It should also incorporate those three areas of concern shared by Africans and Americans alike: security, democracy, and development.

A regional approach should begin by recognizing five African countries where the United States must be involved: South Africa and Congo in southern and Central Africa; Nigeria in West Africa; Kenya in East Africa; and Algeria in North Africa. This broader approach addresses the fact that the United States has a regional concentration of interests in each area, and that these interests—economic, strategic, political, societal—are intertwined in any given country, and are easily influenced by events across porous borders.

South Africa, Congo, Nigeria, Kenya, and Algeria are too important for Washington to ignore because all five meet most or all of the following criteria: they are large countries with large populations; they boast the strongest and most industrialized economies in their regions; they are among the largest markets for United States exports to Africa; the United States has diverse and long-standing interests in them; they are potential economic and political regional powerhouses; and, consequently, they are—or are likely to become—the “big actors” on the regional scene whose cooperation will be invaluable in resolving a wide range of problems. In short, they are likely to be either forces for regional security or sources of regional instability; forces for economic growth and democratization or sources of decline. The ultimate success of the African renaissance hinges on these five “anchor” countries.

Individual focus countries are obviously unique and the nature of American relations with each will be dramatically different, as will the direction of United States policy toward the different regions.

Southern Africa

Democratic South Africa is the United States most important partner in Africa. Although some were taken aback by it, President Nelson Mandela’s forceful articulation of South African sovereignty during Clinton’s visit lends strength and integrity to the partnership. Washington works with Pretoria on a host of pressing national and regional issues. The two countries also have begun to share broad policy objectives in South Africa itself and throughout the region. South Africa is America’s second-largest trading partner in Africa; with two-way trade at \$5.5 billion in 1997, it is a more important trading partner than all of Eastern Europe combined.

Cooperation on security and economic issues is most developed in the southern subregion. The Southern Africa Development Community (SADC) continues to evolve as the principal vehicle for promoting greater intraregional trade and security cooperation. Nearly every country in the subregion has experienced fairly healthy GDP growth rates over the last three years, although an El Niño-inspired drought could threaten that trend this year. Each country in the SADC also boasts an elected government (the exception is Congo, which gained membership in the SADC at the end of last year). American initiatives on trade, aid, debt reduction, and peacekeeping should attempt to reinforce the subregional cooperation under way and support the creation of a regional common market.

Central Africa

The overthrow of CIA client and United States cold war ally Mobutu Sese Seko in May 1997 represented a victory for collective African action, initiated in this case by Rwanda and supported by a half dozen others, including Angola. Their military intervention and promotion of a Congolese rebel alliance under Laurent Kabila has resulted in a dramatically changed Central African environment.

Under President Kabila, the enormous and potentially rich Congo—the region’s focus country—is poised to begin a process of economic reconstruction and political transition. However, persistent conflict in Burundi, a return to genocidal attacks in Rwanda, and general instability in eastern Congo (along with Kabila’s failure to engage the

democratic forces in his own country to create a successful transition process) suggest that greater regional turbulence lies ahead. Indeed, a resolution to the conflicts in several of Congo's nine neighboring states will depend substantially on the nature of Congo's transition.

In Congo it is not possible for the United States to embrace the self-proclaimed transitional government as a regional ally, but is it not advisable for the United States to remain disengaged. American policy requires a more creative and energetic combination of cooperation with the new government on economic reconstruction and on conflict prevention. Most important, support for democratic forces in Congo along with greater pressure on Kabila to help the country achieve a successful transition to an elected government is required. The United States should press Rwanda, Tanzania, Uganda, and Angola to use their influence with Kabila to develop a truly inclusive transition.

While America's economic relations with Congo are limited, its future as an important emerging market and regional economic powerhouse should not be discounted. Only a democratic resolution to Congo's post-Mobutu transition can unlock the country's enormous but long-distorted potential. It is in the United States interest to help achieve such an outcome and, in doing so, overcome its worst policy legacy in Africa.

West Africa

Nigeria, West Africa's troubled giant, is the United States largest trading partner in Africa and the second-largest OPEC oil supplier to the United States after Saudi Arabia (the United States imports some \$6.3 billion annually in Nigerian oil, petroleum, and petroleum products). Despite the significance of United States trade with Nigeria, America's long-term interests in the country and in the stability of West Africa will require a re-prioritization of current United States-Nigerian relations. United States policy toward Nigeria cannot fail to recognize the centrality of democratization to the country's prospects for security and development. Military rule for 28 of its 38 years as an independent state has prevented Nigeria from assuming a regional role comparable to South Africa's in the southern region. The fate of Nigeria's democracy movement holds significant import for the evolution of democratic political systems in other countries in West Africa, and across the continent.

Increased calls internationally and in the United States for sanctions against Nigeria—including an

oil embargo—are bound to influence policymakers in Washington. An escalation of sanctions, combined with higher level talks with the government aimed at freeing prisoners and getting Nigeria to accept a legitimate effort at democracy building, is the likely course for United States policy in the short term. As Washington faces growing domestic support for the country's pro-democracy movement and continued intransigence by the ruling junta, it will find it impossible to adopt a different standard toward Nigeria than that used for South Africa during the late 1980s. The prudent course will be to help end Nigeria's protracted crisis in the interest of greater progress in all West Africa and long-term United States economic interests.

West Africa generally continues to defy the larger trend in Africa toward elected civilian governments based on peaceful political competition. Following nearly eight years of fratricidal war, Liberians elected former warlord Charles Taylor president in 1997. ECOMOG, the Nigerian-led peacekeeping force that brokered the peace deal and provided shaky security in the country, is to withdraw this year. In neighboring Sierra Leone, ECOMOG recently forced the military junta to flee and returned the elected civilian government to power. Elsewhere in West Africa, military governments in Gambia and Niger civilianized themselves through questionable elections, and Nigerian dictator Sani Abacha appears likely to use his transition plan to achieve the same result in elections scheduled for later this year. This strategy has brought meaningful political change only to Ghana, while elsewhere it has served to delay democratization and perpetuate military rule in civilian garb.

The mainly civilian-led governments in francophone West Africa continue to promote regional economic cooperation through the West African Economic and Monetary Union and plan to launch a collective stock exchange based in Abidjan, Ivory Coast. Most of these states have recently boasted economic growth, as has Ghana. The subregion's overall economic, political, and security prospects are, however, directly undermined by Nigeria's refusal to countenance political and economic freedom for the country's more than 110 million people. The regionwide economic cooperation organization ECOWAS has not achieved any real economic integration, mainly because of Nigeria's economic and policy failings.

East Africa

Revitalized United States support for democratization in Kenya is crucial if this focal East African

country is to avoid slipping into a violent ethno-regional crisis; such support would also provide a positive example of the economic benefits that can accrue from democratic governance. As East Africa's economic leader, Kenya is a potential hub around which regional economic development could be built, including greater economic cooperation between the countries of eastern and southern Africa in the Common Market for Eastern and Southern Africa. In addition to its economic interests in Kenya (the eighth-largest African market for American exports), the United States still depends on access to Kenyan ports and airfields for military operations in the Persian Gulf and for humanitarian intervention in East Africa itself.

Continued corruption and the repression of Kenya's considerable democratic movement threaten to undermine East Africa's precarious stability; they have already slowed the progress of the East African Cooperation program, which was relaunched in 1996 by Kenya, Uganda, and Tanzania to promote greater ties and benefits in the economic heart of the subregion.

A more dramatic regional development is the advance of a guerrilla alliance against the dictatorial Islamist regime in Sudan. Eritrea, Ethiopia, and Uganda's cooperation in support of this project is seen by many as offering hopes for a repeat of last year's successful intervention in Congo by a similar collective. The Clinton administration imposed financial sanctions on Khartoum in 1997 and is providing "nonlethal" support to Sudan's three allied neighbors. Washington's preoccupation with Sudan has led it to play down the importance of political reform in these three countries, a strategy that could ultimately threaten the national transformation each hopes to accomplish.

North Africa

In Algeria, the complicated challenge of "mainstreaming" Islamic fundamentalism into a new democratic system has regional implications across not only North Africa but also parts of West and East Africa and Western Europe. The dual threats of radical religious fundamentalism and the authoritarianism of governments in many North African states require a strong policy response if the United States is not to be forced to retreat from promoting its interests in the region.

The carnage consuming Algeria has highlighted the impotence and disinterest of the international community, including all Arab and African regional institutions, in initiating a dialogue for peace or an

intervention to protect Algerian lives. The extreme violence of the fundamentalist Islamist opposition, and the government's own involvement in massacres and continued political repression, show no signs of abating. Throughout the region, the increasing number of unemployed youth, combined with repressive regimes and Islamist movements often offering the only alternative to the status quo, portends a growing instability that threatens to overwhelm the little economic progress most states in the region are achieving. The United States should stop hiding behind French indecision and organize an ambitious diplomatic initiative with the European Union and African and Arab states to promote a negotiated settlement to Algeria's nightmare.

A NEW AGENDA

Without security, neither democratization nor economic development can be realized in Africa's five subregions. To prevent a return to war where agreements have been reached and to keep religious, ethnic, or political intolerance from leading to war, democratic practices and institutions require continued United States support. The current struggles for democracy in most of Africa also require support if long-term stability and economic growth are to be achieved. Finally, United States policies toward each of these regions must creatively marshal resources to help African countries succeed with economic reforms. The United States must rethink its bilateral aid and trade promotion policies and its role in the multilateral financial institutions to lend greater support for regional cooperation and development.

With the exception of South Africa, growing human rights abuses will make it nearly impossible for the United States to cooperate with the focus country governments on other regional issues. This suggests the need to rapidly press forward on human rights and democratization issues, not only because they deserve urgent attention in themselves but also because failing to do so could jeopardize Washington's ability to promote collective solutions to larger regional problems and to help realize Africa's economic potential.

A regional approach will not limit the scope of United States involvement in Africa but will sharpen the focus. By thinking regionally the United States would be better able to promote the objectives it shares with most of Africa. This approach would also permit the United States to remain engaged with the entire continent in a manner commensurate with American interests. ■

President Bill Clinton's recent trip to Africa focused considerable, upbeat attention on the continent's economic potential: "Are the African economies emerging from the tunnel, or are they still catching only glimpses of light?"

Economic Takeoff in Africa?

DEBORAH BRAUTIGAM

Economists, the most pessimistic of the social scientists, have become decidedly bullish on sub-Saharan Africa. For the past two years the often quarrelsome "Bretton Woods sisters," the World Bank and the International Monetary Fund, have spoken with one voice in saying that "Africa is on the move." *The Economist* came on board with a June 14, 1997, cover story touting "Emerging Africa," while the United Nations Conference on Trade and Development (UNCTAD) recently highlighted Africa's role as a promising emerging market. The confidence extends beyond economists: Susan Rice, the United States assistant secretary of state for African affairs, declared at the African Studies Association's annual meeting in November that "Africa is potentially at the point of takeoff."

For a continent that has been mired in almost two decades of economic crisis, this optimistic outlook is heartening. An economic turnaround is sorely needed. Sub-Saharan Africa is the poorest region on earth. Standards of living have fallen by nearly 25 percent since 1960 and almost 40 percent of the population lives on less than a dollar a day. At present, almost one out of three Africans will die before reaching his or her fortieth birthday. Outside South Africa, GNP per capita averages only \$300, one-tenth the average for Latin America. Growth is essential to break the deadlock of poverty and despair.

SIGNS OF GROWTH

Are African economies emerging from the tunnel, or are they still catching only glimpses of light? In the aggregate, the higher growth rates seem substantial, and have persisted for three years. Sub-Saharan African countries grew at a real rate of only

1.5 percent between 1980 and 1993, but in the past three years growth jumped to an average of 4.3 percent. In 1990, 15 sub-Saharan African countries had negative growth rates. In 1996, growth was negative in only 4: Burundi, Central African Republic, Comoros, and Djibouti (Liberia and Somalia would also be in this group if there were any statistics to report). In 1996, sub-Saharan Africa grew faster than Latin America. On a per capita basis the growth is less impressive, given high population growth rates of 2.8 percent on average, but it still translates into a sustained period of positive per capita growth, something the subcontinent has not seen for many years.

Other indicators are looking up as well. Exports, which had been growing at an average of 1.6 percent between 1990 and 1994, expanded at an annual rate of 10.9 percent during the past three years. Foreign reserves have almost doubled since 1990, giving African countries a slightly plumper cushion against balance of payments crises. And foreign investors have begun to channel equity and portfolio investment toward a region that has been off-limits to all but the most intrepid of companies.

How widespread is this growth? Of the 48 countries in sub-Saharan Africa, 21 had growth rates of 5 percent or higher in 1996. Between 1995 and 1997, 11 countries—Angola, Benin, Botswana, Ivory Coast, Equatorial Guinea, Ethiopia, Guinea Bissau, Lesotho, Mauritius, Togo, and Uganda—grew steadily at average rates of over 7 percent.

There are distinct regional differences. Southern Africa (including the Indian Ocean countries of Mauritius and Madagascar) and East Africa are the most advanced; southern Africa grew at average rates of over 5 percent in 1997. Central Africa is in much worse shape, beset by political turmoil and saddled with weak banking and financial sectors. Countries in francophone West Africa averaged 5.3 percent growth in 1996, which suggests that they

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have adjusted well to the 50 percent devaluation of their shared currency, the Communauté Financière Africaine (CFA) franc, in 1994. At the same time, the long-established economic and monetary union among these CFA franc zone countries may help them maintain macroeconomic discipline since it underpins their move toward a common regional securities law and a regional stock exchange.

In the United States, Africa boosters have convinced Congress and the Clinton administration to support the African Growth and Opportunity Act, the "trade not aid" initiative drawn up by Representative Jim McDermott (D-WA) and the bipartisan African Trade and Investment Caucus. The act, which was conceived in 1996 but came before the House (where it was passed) and the Senate only this spring, represents a landmark shift in American economic policy toward Africa. It promises to reward countries that undertake political and economic reforms with foreign investment and expanded access to United States markets for their manufactured goods rather than simply with additional aid.

Africa is still considered a high-risk area by *Institutional Investor* and rating agencies. But a recent IMF study estimated that while foreign investors in developing countries normally earn returns of some 16 to 18 percent, returns on African investments average 24 to 30 percent. Total foreign direct investment (FDI) in Africa rose from \$926 million in 1990 to \$2.6 billion in 1996.

This general optimism is buoyed by a number of private funds that have focused a small but growing spotlight on Africa as the newest emerging market. The venture capital funds arrived first, each generally investing in a specific African country. Between 1982 and 1993, four were established in Kenya, Ivory Coast, Madagascar, and Zimbabwe. In the past four years venture capital funds have also been established in Mauritius, South Africa, Ghana, Senegal, and Tanzania, and they have been joined by several regional funds in French-speaking West Africa and in Zimbabwe and Zambia.

The new interest among investors is partly a reflection of the globally unprecedented wave of portfolio and equity investment of the 1990s. Africa is catching the tail end of this wave, but it is still strong enough to move and shake the tiny markets on the continent. Almost 15 portfolio equity funds now focus on Africa; portfolio equity investment, which was zero in 1991, climbed to \$3.6 billion in 1996. Capitalization of these funds ranges from \$2 million to \$280 million, with most well under \$100 million.

These signs of economic recovery are still simply signs. The recovery is thin and it may not be sustainable. Growth rates are still below the levels of 7 percent or more that are necessary to bring African countries out of their deep poverty. There is little evidence on how equitably the new growth is being distributed. And in comparative perspective, the new interest in Africa is still quite marginal. Foreign direct investment in Africa, while growing, accounts for only a little more than 2 percent of FDI going to developing countries. Colombia and the Czech Republic each received more FDI in 1995 than all of sub-Saharan Africa combined.

EXPLAINING THE TURNAROUND

These first weak, uneven indications of economic recovery might be explained as a temporary result of favorable weather, higher prices for African commodities, the recovery of production after civil war, or a small boom following the end of apartheid in South Africa. They could also be the more sustainable result of better policies, reflected in more stable macroeconomies, higher and more efficient production, and the return of private capital, domestic and foreign.

Much of Africa has enjoyed a period of fairly good weather recently, which has aided a recovery of the agricultural sector. Agricultural output, which had been limping along at 1.5 percent growth between 1990 and 1995, grew at the very strong rate of 5.2 percent in 1996, thanks to excellent rainfall and bumper crops. Increasing productivity in agriculture will be critical for the well-being of Africans, nearly 70 percent of whom still work in this sector. But a leap like that seen in 1996 is unlikely to be the foundation for a sustained recovery, given the volatility of weather in Africa. This year El Niño has already brought both drought and flooding, devastating production and infrastructure in Somalia and other parts of East Africa.

Could an improvement in prices for African exports explain this recovery? African countries are heavily dependent on agricultural commodities and natural resources such as coffee, cacao, and copper (more than three-quarters of the countries in sub-Saharan Africa derive more than half of their export revenues from only two primary commodities). Sharp increases or drops in the prices of these exports can dramatically shift the terms of trade in favor of, or against, Africa.

Between 1990 and 1993, the terms of trade declined for Africa's exports, meaning that the prices of African exports (mainly raw materials)

and three additional years for IMF/World Bank write-offs. So far, only Uganda and Burkina Faso have qualified for HIPC relief; Uganda was slated to receive its first HIPC write-off in April. Ivory Coast and Mozambique are next in line. This represents only 4 of the 16 African countries ranked by the IMF as having "unsustainable" or "possibly stressed" levels of debt, and critics charge that the hurdle—six years of continuous reforms—is too high.

THE ASIAN CRISIS AND AFRICA

Finally, what impact will the economic crisis in East Asia have on Africa's fragile economic recovery? East Asians too have "discovered" Africa. African exports to Indonesia, South Korea, and Malaysia have grown from almost nothing to several billion dollars over the past few years. Half the total investment received by South Africa in 1995 came from Malaysia, and Taiwanese and Hong Kong firms have been major investors in textile and garment production in Lesotho and Mauritius.

The East Asian crisis presents three potential areas of fallout: a direct "contagion effect"; lower demand for African exports and less Asian investment in Africa; and, in the longer term, the question of the relevance of the Asian model for African development strategies.

So far there is little evidence that African currency and capital markets will catch the "Asian flu." The small markets are not really globalized and mainly attract domestic investment. Few countries have full currency convertibility, which means there is little opportunity for currency speculation. South Africa is an exception: in 1996, speculators attacked the rand, driving it down by 25 percent, but the market recovered, and the government was able to maintain credibility as a macroeconomic manager. At present, South Africa's fiscal deficit is shrinking, the currency is not overvalued, and there has been little "irrational exuberance" in the real estate or stock markets: the banking sector has a bad loan burden of only 2 percent. Although Zimbabwe suffered a drastic fall of 50 percent in its currency late last year, that was because of domestic issues—a controversial land reform plan and an unsustainable, politically inspired spending leap that badly unbalanced the government's budget—and not an Asian virus.

Asia's economic problems have meant lower demand for Africa's raw materials. African exports

to Asia had been growing at some 15 percent a year recently, albeit from a low base. The African equity funds have been affected by the ripples from Asia, especially those funds with heavy investments in mining and raw materials whose Asian demand has dropped. Palm oil, tin, and other commodity producers also face increased competition now that Thailand, Malaysia, and Indonesia have devalued their currencies. Garment and textile exporters in Mauritius are concerned about competitive pressures stemming from the newly lower wages in Asia.

What of the relevance of the Asian model for African development strategies? President Yoweri Museveni of Uganda and other African leaders have often voiced admiration for the Asian model of development, although it is not clear if they admire primarily the high levels of equality and human development in Asia, the high growth, or the practice of "growth first, democracy later." Harvard economist Jeffrey Sachs argued in the June 29, 1996, *Economist* that if African economies adopted East Asia's liberal economic policies, many of them could grow at East Asian rates. However, when Asian countries were at the stage Africa now finds itself, they intervened extensively in their economies. Liberalization came later. The fact that the less liberalized countries in Asia (China, Taiwan) have also been affected by the currency crisis has not passed unnoticed in Africa. The crisis has created a visible split between the World Bank and the IMF as far as what to recommend—a split the African countries have been quick to use. At a minimum, African countries now have a better case for arguing for a slower pace of reform when pressed to liberalize their financial sectors and capital accounts.

MAKING UP LOST GROUND

Before the Asian crisis hit, Malaysian Prime Minister Mahathir Mohammed visited southern Africa and told Malawians, "I have a feeling in my bones that the next growth area is going to be here." When their governments finally provide the basics of political and economic stability, education, public health, and the rule of law, Africa's energetic entrepreneurs may get the chance to fulfill his prophecy. But for now African countries will need years of rebuilding simply to reach the point where they were in 1970. An economic miracle of the "tiger" variety still seems a long way off. ■

Marina Ottaway reviews the recent political history of Africa's "new leaders" to find that while there may indeed be "new thinking" among them, their governments "remain inherently authoritarian. It has been a relatively benevolent authoritarianism so far, but it could degenerate into the predatory style of rule that destroyed these countries in the past."

Africa's "New Leaders": African Solution or African Problem?

MARINA OTTAWAY

In the last few years, the troubled Horn of Africa and Great Lakes regions have seen the rise of a group of leaders determined to reintegrate their collapsed states and set them on a course to political stability and economic development. The pursuit of stability has led this group to tackle not only their domestic problems but many of the region's conflicts as well.

President Yoweri Museveni of Uganda, Prime Minister Meles Zenawi of Ethiopia, President Isaias Afewerki of Eritrea, and Vice President and Defense Minister—and de facto head of government—Paul Kagame of Rwanda are the most important of these new leaders. Together they form a cohesive group; coordinating their foreign policies and tackling similar domestic problems, though not in an identical manner. President Laurent Kabila of the Democratic Republic of the Congo (formerly Zaire) would like to be seen as one of these "new leaders," just as his colleagues would like him to behave as one, but the evidence so far suggests that Kabila is unlikely to follow in the footsteps of those who helped put him in power.

The four leaders are controversial. On the positive side, they have proved extremely capable. They have taken countries in a state of political and economic collapse, revived their economies beyond all expectations, and reinstituted a system of government when this appeared to be an impossible task. On the negative side, they have shown more concern for stability and economic growth than for

democracy and human rights. Their plea that the international community should understand the special problems their countries face and allow them to blaze their own path to democracy can be interpreted as a realistic assessment but also as a weak excuse for authoritarianism. Their intervention in regional conflicts can be seen as a sign that African governments are beginning to take greater responsibility in the international arena, or as a new threat to African stability. Do the new leaders represent African solutions to African domestic and regional problems? Or are they a new African problem?

COLLAPSED STATES

Uganda, Ethiopia, and Rwanda were collapsed states when their current leaders took over. As I. William Zartman has noted, "the structure, authority (legitimate power), law and political order [had] fallen apart and [had to] be reconstituted in some form." Eritrea, which emerged from the collapse of Ethiopia, faced a similar challenge of creating structure, authority, and political order.

If the problems faced by the four leaders were similar, so were their mind-sets. Victorious military commanders, they believed that some difficulties must be solved militarily. By the late 1980s their earlier commitment to socialist ideals had been replaced by a commitment to market-oriented economic reforms. Nevertheless, the combination of military background and earlier socialist ideals left an imprint: they saw the reconstruction of state and economy as an orderly process to be carried out under the vigilant eye of an interventionist government. They believed in the market, but also in the state. They were aware that the new international climate called for a commitment to democracy but

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remained suspicious of political parties, believing they fomented ethnic and religious strife.

In each country the task of reintegrating the state had four major components, although not in the same order of priority: restoring security and the government's capacity to administer the country; dealing with politicized ethnicity; creating channels for popular participation; and rehabilitating the economy. Since 1990 the international donor community had been formally committed to the idea that there was a common solution to the first three problems: multiparty electoral democracy. The African leaders, however, were convinced that state capacity had to be restored, a solution to politicized ethnicity worked out, and new channels for popular participation established before a country could introduce multiparty competition and formal democratic institutions. At the same time, the new leaders (with the partial exception of Eritrea's Isaias) accepted the need to liberalize the economy, which put them in good stead with international aid donors.

MUSEVENI'S "MOVEMENT" DEMOCRACY

In Uganda, Yoweri Museveni's immediate goals after his National Resistance Movement occupied Kampala in January 1986 were to restore security, reestablish a system of government, and defuse ethnic strife. Democracy in the form of multiparty electoral competition would have to wait until these goals were accomplished, he argued, but there were other channels for popular participation.

Museveni's program to restore security in Uganda involved integrating all former combatants into one army and trying to control the insurgent Holy Spirit Movement and, later, the Lord's Resistance Army in the north. The reintegration of combatants into the national army, and the subsequent demobilization of thousands of soldiers, were successful. While the attempt to control the insurgency drew criticism from human rights organizations, which were concerned that the government used excessive force, insurgents, especially the Lord's Resistance Army, were condemned by the same groups much more vigorously.

To restore government Museveni chose a "movement system." Instead of parties the country would have one all-inclusive movement, with candidates running on the basis of personal qualifications. Existing political parties were not banned, nor were their members prohibited from running for office as long as they did so in an individual capacity.

A decentralized system of local government offered additional avenues for popular participation,

although on a limited basis. Village councils were directly elected. But four other layers of local councils, culminating with district councils, were elected indirectly by members of the lower bodies. The district councils, which emerged as the most important unit of local government, were thus far removed from voters' control. The system was more notable for decentralization than for accountability and transparency.

The drafting of a new constitution also became an exercise in limited participation. A constitutional commission held hundreds of meetings throughout the country, soliciting oral and written comments. Although almost 25 percent of the country's villages made written submissions, the major political players of a traditional democratic system—political parties and organized interest groups—did not have a role. As in elections, individuals could not participate as members of organizations. It was a concept of direct rather than representative democracy that could easily play into the hands of the only organized forces, the movement and the government. This direct form of consultation, without the mediation of political parties, is to remain in place until the Ugandan people vote to allow a competitive party system. The constitution stipulates that a referendum on such a change will be held every five years, beginning in 2000.

Fewer steps were taken to defuse ethnic conflict. One was the suspension of political parties that had ethnic affiliations. The other was the 1993 decision to give official recognition to the kingdoms of Uganda as cultural units but not as political ones. The constitution confirmed this arrangement. It was, inevitably, a compromise that did not satisfy anyone completely and that may not survive a transition to multiparty democracy.

THE ETHNIC QUESTION FIRST IN ETHIOPIA

For the new Ethiopian government that came to power in May 1991, the problems were essentially the same as those in Uganda, but the priorities were different. For Prime Minister Meles Zenawi, the ethnic issue came first, and the new system of government hinged on solving the "problem of the nationalities," the Leninist term for ethnic conflict favored by the ruling Tigrean People's Liberation Front (TPLF). Security was a military matter, and popular participation received low priority.

Militarily superior to the other ethnic liberation movements that had confronted the military regime, the TPLF was politically weak because Tigreans made up only 10 percent of the population.

Thus, the TPLF could not govern on its own. It took two steps to remedy this problem: first, it formed new ethnically based parties in each region and grouped them under the umbrella of the Ethiopian People's Revolutionary Democratic Front (EPRDF). Only one of the parties in the EPRDF, the TPLF, actually controlled it. Second, the TPLF attempted to transform Ethiopia into a federation of ethnic states, hoping that more autonomy for each state would defuse conflict, while continued control by parties grouped under the EPRDF would maintain unity and ensure TPLF dominance. The country was divided into 12 ethnic regions and 2 autonomous cities. The regions have acquired a degree of budgetary and administrative autonomy, but not political autonomy, since all regions are governed by EPRDF affiliates.

Decentralization has not been accompanied by an increase in popular participation. Although the country has held three supposedly multiparty elections (local and regional elections in 1992, constituent assembly elections in 1994, and parliamentary elections in 1995), political participation has narrowed rather than widened since 1991. During the 1992 elections the EPRDF tried to curb the activities of other political parties and most, including the Oromo Liberation Front (OLF), withdrew from the contest in protest. Fighting between the army and OLF militias flared up at that time. The major opposition parties have never returned to the elections process. Some, like the OLF, have been banned for not renouncing the use of force; others have refused to participate, saying that the government makes it impossible for them to compete fairly.

Holding multiparty elections under these circumstances has not increased popular participation, and it may have made it even more difficult. While Museveni and the other new leaders know that they still have to confront the challenge of multiparty elections, the Ethiopian government has overcome the hurdle and is now complacent in its assertion that elections have demonstrated the inherent weakness of the opposition. After the parliamentary elections of 1995, Prime Minister Meles Zenawi declared that Ethiopia had completed the democratic transition but that he did not expect a viable opposition to emerge for 10 to 15 years.

The Meles government has been exclusionary in other respects as well. It made no attempt to

include military personnel from either the defeated army of Colonel Mengistu Haile Mariam—the head of state of the overthrown regime—or the militias of other liberation movements in the new military. The OLF militia, the most important, was instead eliminated in the fighting during the 1992 elections. Soldiers and members of Mengistu's party have also been barred from participating in elections.

The government did encourage some popular participation in the writing of the constitution, but consultation was not as extensive as in Uganda or Eritrea. Furthermore, the most controversial aspect of the new constitution—the transformation of Ethiopia into a federation of ethnic states—was never open to discussion.

ERITREA'S FOCUS ON EFFICIENCY

Paradoxically, Eritrea confronted fewer problems in establishing a government and dealing with politicized ethnicity and popular participation. After 30 years of war, including long periods of control in certain areas, the Eritrean People's Liberation Front (EPLF) was already a state-in-waiting and quickly established its control over the northern Ethiopian province of Eritrea after it, in league with the TPLF, defeated Mengistu's army in May 1991. The result was a monolithic system, where efficient control was given greater

importance than participation and democracy.

Other new leaders had to contend with old political parties, remnants of other armies, residues of security services or police forces—with the debris, in other words, of state collapse. Isaias Afewerki started with a much cleaner slate. Rival nationalist movements, particularly the Eritrean Liberation Front, were eliminated domestically by the early 1980s, and only survived as exiled organizations. The remnants of the Ethiopian army fled across the border into Ethiopia in 1991. The EPLF moved into this vacuum with its tightly organized, well-disciplined civilian and military apparatus. It was thus able to govern the country from the beginning, although it faced enormous financial problems.

Politicized ethnicity was not a major issue in Eritrea at the outset because the war against Ethiopia had strengthened unity. The government was determined to keep it that way. It replaced the region's ten provinces with six zones, drawing the boundaries to maximize ethnic mixing. It also used 18 months of compulsory national service for all

The new leaders represent, if not an African solution to African problems, at least an African attempt that has provided some positive results.

young men and women as a tool for national integration. Each participant was assigned to a multi-ethnic unit and remained with it for the entire period in the hope that the shared experience would create a bond stronger than ethnic and religious differences. The danger of politicized ethnicity thus appears minimal.

The most difficult issue facing Eritrea is popular participation. During the war with Ethiopia the EPLF cultivated the image of a participatory and democratic movement even though it was essentially a military organization with a strong sense of hierarchy and discipline. Historically, such movements have turned into single parties and become increasingly authoritarian. The EPLF claims that this will not happen in Eritrea and that the ultimate goal is democracy, but so far popular participation has been limited while signs of centralized control abound.

The people of Eritrea have been extensively consulted on the writing of the constitution, with innumerable meetings held throughout the country. As in Uganda, such consultation with an inchoate population should not be confused with participation in a serious debate by organized political parties or civil society. There are no legal parties in Eritrea. The governing EPLF, renamed the People's Front for Democracy and Justice (PFDJ) in 1994, borrows from Museveni and says it is a political "movement." The government claims to be committed to a multiparty system in the future, but its actions suggest otherwise. All so-called organizations of civil society are subordinate to the PFDJ. Foreign NGOs have recently been closed down; there are no independent publications; and there are no pre-existent political parties operating clandestinely, as in Ethiopia, or in a twilight zone, as in Uganda. There is little to differentiate the movement system in Eritrea from a single-party system.

RWANDA: NEITHER STABLE NOR COLLAPSED

Of the four countries with new leaders, Rwanda is the most difficult to assess. A country of nearly 8 million people before 1994, Rwanda represented the worst-case scenario of what politicized ethnicity can do. In the spring of 1994, as many as 1 million Tutsis were massacred by Hutu extremists opposed to any accommodation with the guerrilla Rwandan Patriotic Front (RPF), which was predominantly Tutsi. The RPF's victory in turn triggered the exodus of some 2 million Hutus to refugee camps in Zaire and other neighboring countries, but also led to the return of some 700,000 "old refugees" who had not been in the country for decades. In

1996 attacks by Laurent Kabila's rebels and Rwandan forces on the refugee camps in eastern Zaire led to the mass repatriation of over a million people. It was not just the state that had collapsed in Rwanda; it was all of Rwandan society.

The RPF has been in power only since July 1994, and recurring crises have kept the country in continual turmoil, forcing the government to focus on security. Yet it is possible to discern the faint outline of an approach to state reconstruction that is remarkably similar to Museveni's.

The RPF proclaims itself a movement striving for democracy. It has suspended political party activity for reasons of "security and national unity." But the constitution adopted in 1995 by the National Assembly provides for a multiparty system, and the seats in the National Assembly have been apportioned among political parties, as have local government positions. Kagame and the RPF, like Museveni, have had to accommodate themselves to the existence of rival parties. That compromise has been facilitated in Rwanda by the fact that no elections have been held yet, and none have been scheduled.

Politicized ethnicity remains the most dangerous issue facing the country, and it is complicated by the repercussions of events in the Democratic Republic of the Congo and in Burundi. The RPF proclaims itself a multiethnic party, although it is predominantly Tutsi, with Tutsi returnees from Uganda, including Kagame, playing the central role. All other parties also have an ethnic character, although the absence of a single Hutu and a single Tutsi party makes the situation somewhat easier. Ethnic tensions remain extreme, however, fanned by events that revive the fears and resentment of each ethnic group. Depoliticizing ethnicity in Rwanda is not a task any government could expect to accomplish quickly.

A READINESS TO USE FORCE

The new leaders have been active in all the conflicts affecting the vast area stretching from the Horn of Africa to the Democratic Republic of the Congo. Ethiopia has been an active participant in efforts to mediate the conflict and revive the state in Somalia. Eritrea, Ethiopia, and Uganda have been important players in the efforts of the Intergovernmental Authority on Development (IGAD) to mediate the conflict between the Sudanese government and its armed opponents. Ethiopia, Rwanda, and Uganda have also participated in the Organization of African Unity-sponsored regional summits on

Burundi. In each case the four leaders have tended to act in concert.

But the new leaders have gone beyond this diplomatic activism in well-established regional institutions. When they have perceived diplomacy to be ineffective, they have turned to force. When the IGAD efforts failed to produce a solution for Sudan, Isaias, Meles, and Museveni openly threw their support behind the Sudanese opposition. This was also in response to the support the Sudanese government was giving to Islamist organizations in Ethiopia and Eritrea, and to the Lord's Resistance Army in Uganda.

The willingness to use force where political pressure and diplomacy had failed was most evident in the case of Zaire. The chaos in eastern Zaire during the final years of President Mobutu Sese Seko threatened all Zaire's neighbors. The Hutu refugee camps harbored not only bona fide refugees, but also members of the former Rwandan army and extremist Hutu militias busily rearming and conducting raids into Rwanda. The expulsion from Zaire of indigenous ethnic Rwandans added to the tension. Ugandan opposition groups also found safe haven in eastern Zaire. With the international community unwilling to help separate refugees from militiamen in the camps, the new leaders took the initiative, setting up and supporting Laurent Kabila's Alliance of Democratic Forces for the Liberation of the Congo (AFDL) and thus fostering Mobutu's downfall. While the exact extent of each country's contribution is not clear, there is no doubt that Kabila's campaign was a regional operation orchestrated by the new leaders.

The formation of a common front against the Sudan, a pariah nation on the United States international terrorism list, won the new leaders Washington's approval and rewards in the form of generous amounts of aid and a lenient assessment of their human rights record. But intervention in Zaire was much more controversial, both because the international community had hoped, probably unjustifiably, that Mobutu would be brought down by democracy rather than by force, and because of the human rights violations committed by Kabila's troops and his Rwandan supporters in eastern Zaire.

BACK TO AFRICA—AND THE FUTURE?

Neither heroes nor villains, the new leaders represent a trend in African politics that has not been seen since the early days of independence: the search for African models of state building and for African solutions to African problems. The first attempt was a failure. Although no conclusions can yet be made about the second attempt, in some respects it is more promising. All four leaders show a much clearer understanding of economic realities than their predecessors did. They are more realistic—Isaias may be the exception—about the limits of the government's capacity to engineer a brave new country, and more willing to muddle through toward a compromise solution. But in the absence of strong opposition parties and political institutions limiting the power of the top leadership, the regimes remain inherently authoritarian. It has been a relatively benevolent authoritarianism so far, but it could degenerate into the predatory style of rule that destroyed these countries in the past.

Whether the new leaders succeed or fail, the outcome will not be what the international community would like to see in the region. Formal electoral democracy with competition among well-developed political parties is unlikely in the foreseeable future in any of the four countries. Domestically and internationally, the solutions provided by the new leaders will inevitably entail more use of force.

The solutions the new leaders are proposing are not those of the international community, but those of Africans confronting enormous problems with few resources, and with little confidence that the international community either has all the right answers or is willing to provide the needed resources. Judged against an ideal model of how collapsed states should be reintegrated and regional conflicts solved, the policies of the new leaders are a problem. Judged against the magnitude of the problems they confront, the scarcity of domestic and international resources, and the lack of realistic alternatives, the new leaders represent, if not an African solution to African problems, at least an African attempt that has provided some positive results. ■

"South Africa has entered a more rough-and-tumble era of open multiparty competition. . . To generate the deep reserves of trust and civic responsibility necessary for a brighter future, black and white South Africans will have to recognize afresh that their futures are inexorably connected."

After Mandela's Miracle in South Africa

MICHAEL BRATTON

A miracle is a hard act to follow. Well-wishers celebrated South Africa's peaceful passage from a racial oligarchy to one of the world's most liberal democracies not least because it seemed so splendidly far-fetched. Who would have thought that hard-line political opponents could span the bitter chasms of color and class to create a compromise solution? Their constitutional pact seemed to give each side what it most wanted: the black majority gained control of the state, and the white minority received guarantees of a place in the economic sun.

Four years after the country's founding elections of April 1994, fissures are beginning to appear in South Africa's historic truce. Black and white South Africans have different understandings of the terms of the transition agreement, especially whether the political miracle marked the beginning or the end of a broad process of change. At the same time, because the pact was struck between elites, political leaders have not been able to guarantee that all their followers will embrace the new order.

In their attempt to resolve deep-seated differences, South Africans will soon lose the guidance of one of the twentieth century's true political visionaries. In 1999, Nelson Rolihlahla Mandela will step down as president, thus depriving the country of its main unifying symbol. Already the era of "reconciliation"—the policy of forgiveness and partnership that has been Mandela's hallmark—is being superseded. With the second national elec-

tion coming in 1999, his African National Congress (ANC) has embarked on a strategy of "transformation" that emphasizes African expectations for economic advancement and downplays minority concerns. Unable to avoid the reality that transformation must embody the redistribution of wealth, leaders of all political parties are lapsing into a defensive racial discourse.

AN ACCELERATED TRANSITION

South Africa's transition to democracy was meant to be gradual. Because they could not agree on immediate majority rule, the principal protagonists—represented by the ANC, the National Party, and the Inkatha Freedom Party—agreed on a temporary power-sharing arrangement. Conducted under an interim 1993 constitution, the founding elections inaugurated a Government of National Unity in which the largest parties obtained cabinet seats in proportion to their share of the vote. This consensual dispensation was to last until the 1999 elections, which were to pass the reins of power to the winners and consign other parties to the role of loyal opposition. Only then would South Africa's transition to a competitive, multiparty democracy be complete.

In practice this timetable has been shortened. An expansive new constitution was signed into law on International Human Rights Day 1996 and entered into force in February 1997. Applauding the text as a monumental achievement, South Africa's Constitutional Court nonetheless insisted on adding provisions to strengthen the bill of rights, provincial autonomy, and public oversight. Significantly, Chief Gatscha Buthelezi and his Zulu-based Inkatha Freedom Party chose to remain entirely outside the process of constitutional negotiations, contending that promises of international mediation of disputes with the ANC had not been honored. And the National

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Party, still led at the time by former President F. W. de Klerk, withdrew from the national unity government on June 30, 1996, claiming that the new constitution discarded power-sharing and that his party could better serve the country in opposition. Thus, for all practical purposes, the "season for power-sharing," as South African scholar Vincent Maphai put it, has already run much of its course, and South Africa has entered a more rough-and-tumble era of open multiparty competition.

To this accelerated transition must be added Mandela's phased withdrawal from the political scene. The "old man" has taken the presidency in an increasingly ceremonial direction, delegating all but the most knotty executive decisions to others in the ANC hierarchy. Deputy President Thabo Mbeki has taken charge of policymaking, notably on the economy. Yet the expected accession of Mbeki to the national presidency in 1999 signals more a change of governing style than a new policy direction. Lacking Mandela's gift for fusing moral authority with a common touch, Mbeki will be a more aloof, professional chief executive. The political succession has been skillfully managed and will likely occur without the debilitating power struggles that often arise when great leaders bow out. While South Africans do not know Mbeki well, and while they will surely never love him as they do Mandela, they are growing accustomed to having him in charge.

ECONOMIC IMPERATIVES

Any South African leader is bound to be preoccupied with the economy, which must generate enough employment to ease chronic black impoverishment. As the government's own targets reflect, economic growth must reach 6 percent per year to keep up with population growth and at the same time lift the poor. Although the South African economy has expanded steadily for five years, growth rates (just 2 percent in 1997, the same rate forecast by the government for 1998) have not been able to make a dent in unemployment, which is rising alarmingly in the nonagricultural sector; at least 30 percent of adults do not have formal jobs. The situation could worsen because of external uncertainties like the price of gold, which has plunged to its lowest level in almost two decades and led to the closure of unprofitable mines. On the positive side, inflation is steadily declining to an expected 5 percent for 1998, the rand has retained its value against many major currencies, and foreign direct investment has begun to trickle in.

After four years in power, much of the credit—and blame—for the performance of the economy can be placed at the feet of the ANC government. In the 1994 election campaign, the party promised to make job creation and social service delivery top priorities under its Reconstruction and Development Program. This ambitious public-spending scheme was supplemented in June 1996 by a more orthodox package of monetary controls and investment incentives known as GEAR, which stands for Growth, Employment, and Redistribution. This homegrown macroeconomic strategy is so market friendly that foreign donors report that they do not even raise economic policy conditions when negotiating grants to the government. Such is the new-found zeal of ANC ministers for neoliberal policies that one easily forgets that, as an exile movement, the party was bent on nationalizing mines, industry, and banking. Not only has the ANC government adjusted to global economic realities by repudiating these commitments, but it now speaks the language of privatization in relation to broadcasting, the airlines, and telecommunications.

This turnabout in economic thinking has been painful and politically controversial, especially for the Confederation of South African Trade Unions (COSATU) and the South African Communist Party. These partners in the ANC's triple alliance have neither abandoned faith in interventionist economics nor ceased to defend organized labor's globally uncompetitive wages; at COSATU's 1997 national conference, hundreds of delegates jeered GEAR. Nevertheless, Thabo Mbeki has vowed that he will stick to his economic policy even if it costs him his friends.

In the face of extreme social inequalities, any democratically elected government will face powerful demands for redistribution. And policies of economic reapportionment will inevitably engender conflict between would-be winners (who will always want more) and prospective losers (who will resist making sacrifices). For example, black businesspeople have taken control of 9 percent of the capital assets on the Johannesburg Stock Exchange, but official efforts at black empowerment are criticized as elitist. A 1998 initiative to enact an Employment Equity Bill that includes ambitious affirmative action requirements has ignited protests and preemptive countermeasures from the private sector. And, even though the government has steadily shifted spending priorities away from defense and toward poverty relief, it still faces popular impatience. Since 1994, the government has

provided electricity to 1.2 million households and furnished water supply for 1.7 million people; yet it remains dogged by complaints that fewer than one-third of the 1 million houses that it promised to build have actually been constructed.

POLITICS POLARIZED

Although the country's leaders would prefer to keep attention focused on the positive possibilities of economic growth, pressures for social justice are making for polarized politics. Three current events illustrate this trend: the fiftieth National Conference of the ANC, the twilight of the Truth and Reconciliation Commission, and the dawning 1999 election campaign.

When 3,000 ANC delegates gathered in Mafikeng for the party's fiftieth congress in December 1997, Mandela gave a vituperative valedictory speech. Before cataloguing the ANC's achievements, he lashed out at "a counterrevolutionary network [based among those] who have not accepted the reality of majority rule." Accused of subverting the government's program were apartheid holdovers in the bureaucracy, the main white opposition parties, foreign-funded nongovernmental organizations, and "the bulk of the mass media." Although the text of the speech was reportedly prepared by Mbeki's office and is thought to reflect his views, it was presented by Mandela, perhaps because his vast authority made a strident message more palatable, and because a reversal of roles enabled Mbeki, whose supremacy is still being established, to rise above the fray.

International press coverage of the speech was adverse, seeing in the president's sweeping attack an unhealthy defensiveness and a failure to distinguish between critics and enemies. Black domestic audiences reacted much more favorably to a public rebuke of those white South Africans who insist on the preservation of what are widely perceived as ill-gotten gains. Indeed, Mandela probably enhanced his status with core constituents who felt that he had gone too far to accommodate white interests.

Certainly the speech helped the ANC reunify a fragmented party. In the elections for the party's deputy presidency, the hierarchy headed off the insurgent candidacy of former First Lady Winnie Mandela who, despite a popularity born of campaigning among the marginal poor, had become an embarrassment because of her penchant for corrupt and high-handed tactics. The party instead stage-managed the ascent of Jacob Zuma, Mbeki's hand-picked associate, to the number two position and

in the process laid claim to political support in KwaZulu-Natal, Zuma's homeland. To their credit, the delegates (who were overwhelmingly African) helped the ANC reaffirm its well-established nonracial credentials by electing seven non-Africans to the party's ten top executive positions.

TRUTH AND ITS CONSEQUENCES

This reaffirmation comes at a time when platitudes about South Africa's "rainbow nation" have worn thin and doubts have surfaced about South Africa's respected Truth and Reconciliation Commission. Set up in July 1995 under the supervision of Nobel Peace Prize winner Archbishop Desmond Tutu, the TRC was a bold attempt to confront the country's brutal past without the cost and divisiveness of Nuremberg-style trials. It was charged with three tasks: to uncover the truth about human rights abuses; to offer amnesty to those who confess a politically motivated involvement; and to make reparations to victims. Armed with the stick of subpoena power and the carrot of amnesty, it is easily the broadest, most powerful commission of its kind ever created.

Since 1995, several thousand victims have testified before the TRC's public hearings, providing, at last, a chance for those who suffered to be heard. At the same time, a stream of low-level apartheid functionaries has come forward to admit, often in chilling detail, how they served as the covert hit men of a deranged regime. Moreover, in December 1997, under the glare of international media coverage, the commission delved into the alleged involvement of Winnie Mandela in several murders in the late 1980s, revealing damaging new information. The TRC has accumulated a repository of apartheid's inner secrets, making denial difficult and a recurrence that much more remote.

However, as the commission prepares its final report for release this June, it faces dwindling confidence from across the political spectrum. The truth about the chain of command in the torture and killing of anti-apartheid activists will remain obscured until senior figures such as former Prime Minister P. W. Botha and Chief Buthelezi drop their boycotts of the TRC proceedings and agree to testify in person. The families of victims express growing anger at a process that opens old wounds but offers little succor afterward. From the right-wing side of the fence, the Freedom Front's Constand Viljoen and his followers suspect that the TRC is a plot to scapegoat Afrikaners as a people. They are especially troubled by the revelation that, without pub-

lic hearings, the commissioners granted a blanket amnesty to 37 top ANC leaders for acts committed during the liberation war.

The Truth and Reconciliation Commission is discovering that truth does not automatically lead to reconciliation. Even more than for Mandela, Archbishop Tutu's career has been built on peaceful accommodation: but as Tina Rosenberg remarked in the November 18, 1996, *New Yorker*, it is far from clear that his "gospel of reconciliation [will] triumph over the human impulse to seek vengeance." The graffiti scrawled on a Pretoria underpass—"Tutu has made them confess; now we will kill them!"—surely represents an extreme view, but it nonetheless captures the missing element: justice. For many South Africans, the righting of wrongs will require more than criminal justice for official perpetrators; as the scholar Mahmood Mamdani recently argued, it must also include a meaningful measure of social justice that involves broad sacrifices from apartheid's multiple beneficiaries. A vice-chancellor of a former black university put it succinctly: "Lasting reconciliation will be achieved only when there is health care and education for every South African child."

The most ambitious goal of the TRC, targeted through extensive radio and television coverage of its public hearings, is to change how white South Africans think. In this it has so far failed. Few whites are willing to admit complicity in apartheid. Shocked, threatened, and ultimately fatigued, many are shutting out the TRC's findings. Tutu summed up the mood of the country by saying in late December last year that whites begrudge being asked to carry a burden of guilt and blacks resent the failure of whites to acknowledge how lucky they are: "And so we sit in our little corners feeling angrier and angrier. . . . But I still think we have a great deal going for us. . . . if [only] we could have the courage maybe to be a little more honest."

TALKING AND NOT HEARING

The opening volleys of the campaign for South Africa's second national elections (expected to be held between April and July 1999) have only confirmed that contending parties talk past each other. At the opening of parliament in Cape Town in February 1998, opposition leaders came out swinging against Mandela's ANC conference speech. Tony

Leon, the head of the Democratic Party, introduced a party document entitled "The Death of the Rainbow Nation" that sought to paint affirmative action as reverse discrimination. In the Western Cape, the National Party is trying to woo "coloured" (mixed race) voters by splitting them from Africans and promising promotions within the party. In response, black parties are closing ranks.

To play the race card would seem to be a losing strategy for small white parties whose only chance of gaining access to government lies in attracting black voters. More realistic is the United Democratic Movement (UDM), formed in March 1997 by Bantu Holomisa and Roelf Meyer, after they broke with the ANC and the National Party respectively to form a multiracial alliance. In February 1998, Meyer announced that he would defer leadership to

Holomisa, but it remains to be seen whether the party can rise above the latter's reputation for opportunism. The UDM's best opening would seem to lie in a policy platform that challenges the ANC's progressive positions on abortion, criminal rights, and the death penalty, and that taps into the strong currents of social conservatism among Africans. Opinion polls from late 1997, however, suggest that the UDM attracts no more than 4 to 7 percent of the national vote.

If these figures hold, the results of the 1999 elections will be similar to those of 1994. Because the euphoria of a founding election cannot be replicated, voter turnout will drop, but the ANC will still likely receive about six out of ten votes nationally. As in neighboring Zimbabwe, there may be a heightening of racial rhetoric and a rash of redistribution promises as elections approach. But such polarization can be read as a product of, rather than a threat to, the gradual consolidation of democracy. No political party—including Inkatha and Freedom Front on the right, or the Pan Africanist Congress on the left—is questioning the legitimacy of elections, seeing them instead as the main game in town.

FROM POLITICAL TO CRIMINAL VIOLENCE

Political violence is in decline. Most encouraging is the apparent determination of national ANC and Inkatha leaders to broker a rapprochement that will reduce deadly interparty clashes during the next election. The idea of an ANC-Inkatha merger has been floated, only to be denied by Buthelezi,

Popular demands for a better life are especially intense in South Africa, whose transition was in large part a revolution of rising expectations.

who is nonetheless capable of changing his mind at the last minute. Moreover, the prospect of right-wing extremists taking up arms to secure an *Afrikaner volkstaat* (people's state) now seems increasingly quixotic. None of these observations rules out the possibility of local feuds in rural KwaZulu-Natal or disruptive skirmishes by remnants of the old regime's more shadowy supporters.

The larger threat to social stability comes from criminal violence. The murder rate in South Africa—65 people per day in the first nine months of 1997—is among the highest in the world. The carnage is concentrated in Johannesburg, Cape Town, and Durban—and further concentrated in black residential areas of the latter two cities—while the rest of the country remains reasonably safe. In early 1998, President Mandela claimed that the ANC's tenure had been accompanied by a decrease in major crimes. The facts, however, are mixed. Some serious crimes (murder, aggravated theft, and robbery of businesses) seem to have fallen slightly in 1997, while others (assault, residential burglary, and rape especially) continue to climb. But the police admit that crime statistics are unreliable, due in part to ignorance about conditions in the former black homelands, and are reluctant to say the tide has turned.

Conventional wisdom connects crime with joblessness. The abolition of influx controls and the growth of informal squatter settlements, coupled with the shortage of jobs, lend credence to an economic interpretation. It does not explain, however, the connection between crime and violence. Here it is necessary to remember that South Africa's seemingly smooth transition was actually very turbulent. Both the state security forces and a generation of guerrilla fighters adopted tactics of intimidation and vigilantism. A gap in authority opened between an ever more repressive state and the increasingly ungovernable townships—into which large numbers of weapons have continued to flow.

By early 1998 the country's security crisis was epitomized by a rash of high-profile problems: gang violence, farm murders, and a spate of armed bank heists. Crime is becoming increasingly organized and internationalized, with Russians, Colombians, and Nigerians believed to be involved in smuggling drugs and guns into South Africa and diamonds and luxury cars out. The national police commissioner has warned that endemic crime is "the biggest threat to democracy in South Africa." The business press emphasizes the negative economic repercussions in the form of high insurance premi-

ums, emigration of skills, and a downturn in tourism. And public opinion surveys confirm that fear of crime is pervasive among South Africans.

THE FRAYED STATE

The perceived ubiquity of crime raises tough questions about state capacity in the new South Africa. Is the state defaulting in its most basic duty to provide law and order?

The performance of the South African Police Service certainly leaves much to be desired. The force makes arrests for just 16 percent of crimes reported, many suspects escape custody before they are brought to trial, and when trials are held witnesses often refuse to testify because the authorities cannot protect them. Similarly, the justice system shows signs of disintegration; for example, delays in bringing cases to trial have lengthened as senior prosecutors have resigned and their junior replacements have refused to work overtime without pay. For cases that do make it to court, the rate of successful prosecutions is in decline.

The root of these problems lies in the apartheid era, which saw black South Africans reject the authority of a state they regarded as politically illegitimate. The restoration of public confidence in the police and courts (not to mention the army and the prison service) will take time, a process that has not been helped by the ANC's slow start in grappling with issues of law and order.

The new government was at first torn between a liberal impulse to protect individual rights and a growing popular outcry for action against violent criminals. Over the last year it has taken a few decisive steps: to tighten bail laws, to introduce minimum sentences for serious crimes, and to establish the country's first detective academy. In an effort to shore up confidence, the government also appointed a no-nonsense businessman to revamp the mission, management, staffing, and training of the police force.

Citizens also expect the state to improve material welfare. Popular demands for a better life are especially intense in South Africa, whose transition was in large part a revolution of rising expectations. Indeed, South Africans view democracy instrumentally, associating it with jobs, incomes, and housing rather than with its intrinsic guarantees of civil and political freedoms. The ANC government is thus under strong pressure to deliver basic goods and services, preferably before the next election. In attempting to do so, it encounters other state weaknesses. Some central government ministries are par-

alyzed as inexperienced new recruits and intransigent old-order functionaries struggle to implement an expanded range of tasks. Among local authorities (overloaded with responsibilities for water, sanitation, electricity, roads, and refuse services), the problems are manifestly financial, though they go much deeper. In March 1997, the minister for local government said that about one out of three local authorities lacked the discretionary funds to deliver basic services at an acceptable level, with one out of eight possessing insufficient cash reserves to cover monthly obligations.

A large part of the fiscal crisis of local government originates in the rent and service-charge boycotts launched by the mass democratic movement against township boards appointed by the apartheid government. These mass actions bred a culture of nonpayment that has proved difficult to eradicate. Boycotts have even spread to upscale white suburbs as rate-payers dodge local taxes or escape into private fee-paying services. Because the ANC government's *masakhane* (let's work together) campaign to encourage payments induced little voluntary compliance, new approaches are being tried, from community self-mobilization to abrupt service cut-offs. Still, it is unclear whether municipalities that once served only an affluent minority can command enough resources to address all needs even if everyone pays. Clearly the state alone cannot solve the problem of distributing basic services: what is required is a collaborative governance scheme that yokes state and civil society in a common project.

AFTER THE MIRACLE

The approaching retirement of the 79-year-old Nelson Mandela comes as the transitional era of reconciliation and power-sharing in South Africa is winding down. The constitutional order will most likely remain democratic: major political players will operate according to agreed-on rules of the game by observing the bill of rights, the electoral laws, and the judgments of the courts. The economic strategy will become increasingly mixed as the ANC government strains to balance its commitment to generating employment through private investment with the rising insistence of its key constituencies for material and social justice. And political discourse will be sharply polarized, even if the distribution of power is not: the ANC will consolidate its hold on the central government while small parties, consigned to permanent opposition, will snap at the ANC's heels with

charges of eroding privilege or betraying the poor.

Seasoned observers of African politics see in the ANC's dominance the portents of a *de facto* one-party state, with all the threats to accountable democracy that such a scenario entails. They worry that the ANC may win two-thirds of the seats in the 1999 parliamentary elections, thus enabling the government, should its present commitments change, to amend the constitution at will. These concerns are valid to the extent that evidence is already available that some ANC officials cut legal corners and practice or condone corruption. In a weakness typical of other African leaders, both Mandela and Mbeki have yet to come out against graft among party loyalists. But concerns about the threat of political monopoly overlook countervailing powers, unusually strong by African standards, embedded in South Africa's state (especially the constitutional court and numerous public watchdog agencies) and its civil society (which features a plural press and nongovernmental organizations). These elements can quickly call into question the legitimacy of a corrupt government.

Which brings us to the central issue. The threat to the South African miracle emanates not so much from a state that governs too much, but from one that governs too little. The most serious flaw in the new South Africa is not imminent authoritarianism but the relentless erosion of political authority. It is most evident in a frayed government that cannot effectively control crime or redistribute services quickly and broadly enough, highlighting the need to reconstruct both police services and local government from the ground up. State incapacity would appear to be at least as serious a constraint to overcoming poverty as persistently low rates of economic growth.

While popular discourse casts these challenges in terms of "delivery," this puts altogether too much onus on the state. The bureaucratic apparatus in South Africa is weak in good part because its inherited structures are historically disconnected from its mass clientele. The ANC is well placed to help mediate a new social contract between state and citizen that restores state legitimacy. To accomplish this, the country needs a new generation of visionary leaders who can help South Africans see that crime and poverty are not only linked problems, but also shared ones. To generate the deep reserves of trust and civic responsibility necessary for a brighter future, black and white South Africans will have to recognize afresh that their futures are inexorably connected. ■

"While Somalia today is stateless, it is not anarchic. Although repeated efforts to revive a central government have failed, local communities have responded with a wide range of strategies to establish the minimal essential elements of governance. . . . Indeed, in some parts of Somalia, local communities enjoy more responsive and participatory governance, and a more predictable, profitable, and safer commercial climate, than at any time in recent decades."

Somalia: Political Order in a Stateless Society

KEN MENKHAUS

Seven years after the collapse of the Mohammed Siad Barre regime, and three years after the departure of the ill-fated United Nations Operation in Somalia (UNOSOM), the Somali people continue to live in a state of statelessness. In the absence of media coverage, many assume that the country still looks like the Somalia they recall from the horrific imagery of 1991 and 1992: a land of chaos, "Mad Max" warlordism, refugees, teenage bandits, and walking corpses.

While Somalia today is stateless, it is not anarchic. Although repeated efforts to revive a central government have failed, local communities have responded with a wide range of strategies to establish the minimal essential elements of governance. What has emerged in Somalia are fluid, localized polities involving authorities as diverse as clan elders, professionals, militia leaders, businessmen, traditional Muslim clerics, Islamic fundamentalists, and women's associations. Some political functions, such as the adjudication of disputes by clan elders, are time-honored in Somali society; other practices reflect new hybrid arrangements by communities adapting to and coping with the pressures of protracted state collapse. The results, while hardly ideal, are far from anarchy. Indeed, in some parts of Somalia, local communities enjoy more responsive and participatory governance, and a more predictable, profitable, and safer commercial climate, than at any time in recent decades—all without the benefits of a central government.

There is a tendency to assume, as Robert Kaplan did in his widely cited February 1994 *Atlantic* arti-

cle, "The Coming Anarchy," that the collapse of central state authority is synonymous with anarchy, violence, and societal breakdown. Somalia shows that local communities in Africa have proved more resilient, more politically innovative, and less passive in the face of a crisis of governance than Kaplan and others have assumed.

THE STATE'S DISINTEGRATION

The collapse of the Somali state in January 1991 took both Somalis and outsiders by surprise. The root cause was the highly artificial and financially precarious nature of the Somali state itself. A colonial imposition on a previously pastoral society, the Somali state was never remotely sustainable by domestic sources of revenue. However, Somalia's strategic position in the Horn of Africa garnered it enormous levels of cold war foreign aid that funded a generous political patronage system, a bloated civil service, and one of sub-Saharan Africa's largest standing armies. By the 1980s, development assistance constituted a stunning 57 percent of Somalia's average annual GNP. The Somali state was a castle built on sand.

The reckoning came with the end of the cold war and subsequent reductions in foreign aid. Gross human rights violations by the Barre regime prompted the West to freeze most aid in 1988 and 1989. Starved of its main source of revenue and facing a growing armed insurgency, the central government quickly withered. By 1990, most of the countryside was out of Barre's control; by January 1991, the last remnants of his army were forced out of Mogadishu, the capital.

Other factors combined to hasten Somalia's free fall into anarchy. Decades of repression by the Barre regime had fostered a culture of vengeance; the cold

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war militarization of the Horn of Africa meant that the country was awash in weaponry; fierce interclan animosities, cultivated by years of divide-and-rule tactics, heightened distrust; and a shattered economy exacerbated communal struggles to control what remained of the country's resources.

THE RISE OF "CONFLICT CONSTITUENCIES"

The prolonged period of chaos and humanitarian crisis that ensued in 1991 and 1992 spawned a variety of groups in Somalia with vested interests in continued anarchy. These included warlord political leaders whose power base rested on conquest, clan mobilization, and fear; merchants profiting from illicit commercial activities and mafia-like arrangements in Somalia's economy of plunder; unschooled, armed young men known as the *mooryaan*, whose status and wealth would be eliminated in a peacetime economy; and entire clans that benefited from the conquest of new and valuable real estate they were uninterested in returning to the original owners. Collectively, these "conflict constituencies" worked to undermine peace efforts. Some were even active supporters of General Mohammed Farah Aidid's armed campaign against UN forces, which ultimately discredited and derailed the entire UN mission to restore order to Somalia.

The nature of this crisis of central authority was not fully understood by the outside world, which from December 1992 to March 1995 attempted to revive the Somali state through a massive international peace enforcement mission. Dozens of UN-sponsored conferences to broker an accord between the country's 16 recognized factions met with failure. Over time it became increasingly apparent that the factions lacked the legitimacy to negotiate and implement accords. Even the largest factions, such as General Aidid's Somali National Alliance (SNA), exercised little authority over their territory. The ability to destroy had been confused with the ability to govern. And the power to govern, it turned out, had devolved to a much more local level.

When UNOSOM ended its mission in 1995 without reestablishing a national authority in Somalia, many expected that the country would quickly slip into renewed chaos and civil war. But the slide back into anarchy did not occur. Armed conflict has plagued parts of southern Somalia, but it has remained localized.

THREE SOMALIAS

Since 1995, political and economic conditions in Somalia have grown so diverse that it is unhelpful

to generalize about the country as a whole. Instead, Somalia is better understood as three distinct political and economic environments: zones of recovery, crisis, and transition.

Regions of the northwest (the self-declared state of Somaliland) and the northeast of the country constitute recovery zones. In Somaliland, President Mohammed Ibrahim Egal has not been able to gain international recognition for his secessionist state, but he has overseen the creation of a modest government structure, the rebuilding of part of the region's infrastructure, a revival of the school systems, the maintenance of a safe and lawful environment, and a revitalization of the commercial economy. Somaliland's Red Sea port of Berbera outpaced neighboring Djibouti in import-export tonnage in 1997, and has grown into a booming entrepôt for regional livestock exports. Profits from this commercial renaissance have brought a prosperity to the northwest region that exceeds prewar levels and has helped finance the nascent Somaliland administration.

Recovery in the northeastern regions of Somalia is less spectacular but still impressive. Stability in the northeast partly stems from several political advantages the region enjoys over the rest of the country. It was the only part of Somalia spared from the destruction of civil war; it is ethnically homogeneous (a stronghold of the Mijerteen clan); its clan elders possess an unusually strong tradition of governing clan relations; and the only political faction in the region, the Somali Salvation Democratic Front (SSDF), though weakened by internal power struggles, has benefited from relatively enlightened leadership and has worked to create a viable regional administrative authority. The region's principal seaport, Bosaso, while not as active as Berbera, has also enjoyed a commercial boom, fueling an economic recovery in the Bosaso area that exceeds prewar levels. This relative prosperity, however, has attracted large numbers of returnees and newcomers, placing pressure on urban housing, services, and employment.

Efforts by Mijerteen elders and the SSDF to establish a regional administration have proceeded slowly. Intraclan disagreements over the control and allocation of port customs revenues (the main source of funding for government in the region) have resulted in endless rounds of negotiations and little visible progress in administration. Crucially, these disagreements have not spilled over into destabilizing conflict but have been addressed peacefully.

The emphasis on political dialogue in the north-east highlights the absence of conflict constituencies in the region—there are no freelance militias, warlords, or rogue pirate-merchants. Instead, a combination of clan elders, politicians, intellectuals, women's groups, and businessmen have a vested interest in maintaining a stable political environment.

THE CRISIS ZONE

Somali communities in the south have been less fortunate. From Mogadishu to the Kenyan border, most areas remain crisis zones. Political authority is fragmented and contested and lawlessness—most often manifested in looting, kidnapping for ransom, and vehicle theft—continues to plague residents and the few remaining international organizations. Moreover, the political map of this area was drawn by military conquest; much of southern Somalia was occupied by outside clans over the course of the civil war. These newcomers coexist uneasily with local populations, often taking over homes and farmland and displacing local residents. This has weakened the role of local clan elders, whose authority is disregarded by young, outside militiamen and newcomer clans. Perhaps the most apt illustration of the fragmentation of authority in southern Somalia is the Mogadishu airport; four rival militias lay claim to sections of the facility, where goats now graze on the meter-high grass sprouting in the cracks of the unused runway.

Not surprisingly, nearly all of Somalia's postintervention armed conflicts are located in this crisis zone, but most have remained localized and sporadic. In Mogadishu the main battles have occurred within rather than between the major clans. The SNA, once the largest and most powerful faction in the country, has been shattered by rivalries in the Habr-Gedr clan, and by the death of General Aidid himself from gunshot wounds received while fighting in a south Mogadishu neighborhood in August 1996. Even before his death, the SNA had openly split between Aidid and his former financier, Osman Atto, and the two sides have clashed repeatedly in south Mogadishu. General Aidid's successor, his son Hussein Aidid, is a former United States Marine who lived most of his life in southern California. His inexperience in Somali affairs has not been an asset to the crumbling SNA. In north Mogadishu, Aidid's rival, Ali Mahdi (head of the United Somali Congress, or USC), has fought with the leadership of

the *sharia* (Islamic law) courts for control of police and judicial matters. Ironically, Mahdi had courted the Islamic authorities in 1993 to shore up law and order in his half of the city, only to see them develop into an autonomous political force.

In the port city of Kismayu, three Darod clans—the Harti, Ogadeni, and Marehan—have been unable to devise a formula to share the city and instead have engaged in years of inconclusive political maneuvering that has led to periodic armed clashes. General Mohammed Slad Hersi "Morgan" is the most powerful of the local warlords, but he has exhibited little capacity for or interest in administering portions of the city he controls. Though the port itself is open, commerce between the city and the rich agricultural areas of the lower Jubba Valley has been slowed by freelance militia. A UN vehicle recently reported encountering over two dozen roadblocks, each manned by a separate militia demanding passage fees, along a 60-kilometer stretch of the Jubba Valley road.

Other armed conflicts in southern Somalia have wider dimensions. In the Bay region, Hussein Aidid's SNA militia has occupied key towns since 1995 but has faced surprising armed resistance from the local Rahanweyn clan. The Rahanweyn, a primarily agricultural community with a reputation for political and military weakness, were among the principal victims of the famine of 1991–1992. But since 1995 they have formed the Rahanweyn Resistance Army, employing hit-and-run tactics against the beleaguered SNA.

In the Gedo region in the southwestern tip of Somalia, armed conflict has international implications. Ethiopian forces have since August 1996 crossed the border to engage an Islamist group, Al-Ittihad, in combat. Al-Ittihad had succeeded in gaining control of several districts of the Gedo region during the 1991–1992 civil war. It established security for and effective administration of these districts, but was also accused of serving as a base for Islamist insurgency movements in Ethiopia, prompting the Ethiopian retaliation.

The political turmoil in southern Somalia's crisis zone has stifled economic activity. The seaport and main airport at Mogadishu remain closed, blocking commerce; economic prospects in Mogadishu have been so poor that up to a fourth of the city's 1993 population has moved to rural areas. Most urban households rely on remittances from family members working abroad, creating a dependence on migrant labor that threatens to transform Somalia

*The Somali
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into a virtual labor reserve for the Arabian peninsula. Rural areas of southern Somalia have fared better than Mogadishu, but both pastoral and agricultural production is hurt by chronic insecurity. Smallholders plant less and keep close to their villages as a security precaution. Plantation production of bananas for export has been revived along the lower Shabelle Valley, but is hampered by the closure of the Mogadishu seaport. Rival militias control the banana plantations and export through competing international banana companies; armed conflicts between them at seaports have been dubbed the "banana wars." Profits generated by banana exports primarily sustain the militias rather than help fund reconstruction, and allegations that militias forcibly conscript village labor on the plantations raise doubts about the wisdom of international fruit companies' involvement in Somali banana exports.

Adding to the economic woes of southern Somalia have been the devastating floods of late 1997 and 1998. Communities already beset by food insecurity have lost everything and have had to regroup in encampments on higher ground, where they have survived with international relief. The floods will significantly reduce harvests in the coming year, guaranteeing the need for sustained international assistance.

The rest of Somalia lies somewhere between crisis and recovery, and is best classified as a zone of transition. This includes most of central Somalia, as well as pockets of southern Somalia. In these areas political authority is not as developed as in the north, and the economy is not as dynamic as that of Berbera or Bosaso. Yet these are clearly not areas of crisis. Local political authority is rudimentary but does perform basic functions; the economy is poor, but generates enough for subsistence and a modicum of trade. These areas can be pulled into the orbit of recovery zones, or can be drawn back into crisis. The direction they take will go a long way toward shaping the future of the entire country.

SOMALI POLITICS AS LOCAL POLITICS

Across all three zones in Somalia, the dominant characteristic of the political landscape is radical localization. The most significant political functions in most of Somalia today are carried out at the village, town, or (in Mogadishu, the only large city) neighborhood level. Law and order is ensured either by clan elders, by sharia courts springing up in urban neighborhoods, or in a few instances, by local police forces. Armed neighborhood watch groups

rely on systems of collective security, blowing whistles to alert neighbors of danger and even hiring former bandits as private security forces. Elders work long days hearing and managing disputes, arranging compensation for wrongs committed, and conducting quasi-diplomatic relations between clans. In some neighborhoods sharia courts have gained ambivalent support from residents. Their strict imposition of sharia has virtually eliminated crime in some quarters, and their generous provision of educational opportunities, food, and other social services to the needy—funded by foreign Islamic sources—has won over some Somalis, including former militiamen.

Villagers, too, have learned to coexist with militias that once raided them. In parts of the lower Jubba Valley, militias now "tax" half the villagers' harvest in return for guarding them against other armed bandits. As the symbiotic relationship between gunman and villager evolves, the line between extortion and taxation, between protection racket and police force, is blurred, and a system of governance within anarchy is born. For their part, surviving militiamen have grown more risk-averse, sometimes even marrying into local farming communities and becoming a part of, rather than feeding on, villages they once terrorized.

Grassroots leadership in parts of the country has stepped up to address social needs left unattended by the collapse of the state and the withdrawal of most international agencies. In Borama, Somaliland, an impressive coalition of local NGOs, clan elders, and businesspeople has raised money to operate a school for 1,500 students, finance an eye clinic, supply the city's hospital, and run a bustling public library. In Merka, south of Mogadishu, a women's NGO has established a demobilization project for teenage gunmen. Across southern Somalia, the emergency response to this year's flooding relied heavily on a network of clan elders and local NGOs to identify and meet urgent needs.

The most dynamic adaptation to statelessness at the grassroots level has come from merchants. Politics may be radically localized in Somalia, but commerce is more regional and international than ever. Livestock brokers must move cattle, camels, and goats from the interior to the ports; traders in dry rations, cloth, and other essentials must move their goods from the ports to the interior. The result has been the evolution of a sophisticated trade network across clan and conflict lines, creative credit schemes, and extensive use of telecommunications from the Somali interior to Abu Dhabi and London.

One measure of this adaptability is the notable level of (smuggled) trade from Mogadishu across the Kenyan border, commerce that succeeds in running the gauntlet of 500 miles of "anarchic" territory at a profit. In more than one instance, merchant pressure for open roads has been instrumental in forging peace accords.

That nearly all political activity of consequence occurs informally and at the local level in Somalia is the result of the weakness of the organized political fronts, most of which are today more fiction than faction. The number of Somali factions has continued to multiply since UNOSOM days, but their rate of growth is inversely proportional to their relevance. Most are made up of a handful of aspiring politicians or former civil servants within one of Somalia's many subclans. Their main aim is to ensure a place at any bargaining table where a future state is under discussion, with the hope of securing a strong position in a new central administration. Their energies are thus focused outward rather than inward, toward internationally sponsored peace talks and endless coalition-building exercises with other faction leaders. Rarely do they make even token efforts to administer the towns and communities they purport to represent.

Meanwhile, despite years of disappointment, efforts by the international community to broker a Somali national reconciliation continue. Since UNOSOM's departure, Western and UN-led diplomatic efforts have given way to initiatives by Somalia's neighboring states. Unfortunately, rivalries between Kenya, Ethiopia, and Egypt have meant that these initiatives have worked at cross-purposes. In October 1996, Kenyan President Daniel arap Moi brokered a tripartite agreement for peace between Mogadishu's three most powerful warlords, Hussein Aidid, Osman Atto, and Ali Mahdi, but the accord has yet to be implemented.

In January 1997, Ethiopia sponsored the Sodere conference, in which 26 factions agreed on the establishment of a 41-member National Salvation Council (NSC) with a mandate to organize a transitional government. But the Sodere process did not include Hussein Aidid's SNA, which continued to claim that it is the government of Somalia (a claim unrecognized internationally). Sodere was also unable to coax the Somaliland authorities to participate, and it involved only factional representatives, ignoring the many nonfactional authorities springing up throughout the country. Direct Ethiopian military support to some Sodere participants, moreover, cast doubt on Ethiopia's claim to

be an honest broker, and heightened SNA distrust of the Sodere process.

In December 1997 Egypt convened a peace conference in Cairo between delegates of the SNA and the National Salvation Council, culminating in yet another written peace accord. This agreement commits the factions to create a government of "national union" to be selected at a planned April 1998 meeting in the town of Baidoa. Immediately after the signing of the accord, some members of the NSC rejected the proposed Baidoa meeting on the grounds that it is a town "occupied by a foreign faction"—that is, the SNA. Hussein Aidid has announced his intention to withdraw SNA militias from Baidoa to allow the meeting to proceed, but even that gesture is unlikely to result in a successful conference.

PEACE IN THE BALANCE

For the next several years, Somalia is likely to remain a mosaic of localized polities that collectively add up to something less than a conventional state. Factions will continue to announce that they intend to set up regional or national administrations, while grassroots actors will go on doing the actual work of governance. International diplomats will continue to convene meetings of the factions in hopes of achieving a lasting accord. But dozens of such accords have already been signed in the past seven years, each stillborn. It is not simply a lack of goodwill on the part of the factions that prevents implementation—it is a lack of capacity. Fortunately, the factions' collective weakness also makes it unlikely that the country will revert to the large-scale armed conflict seen in 1991 and 1992.

Real political power in Somalia has become so radically decentralized that top-down diplomacy may not be viable. Though diplomats have been slow to recognize this, international aid agencies have been more adaptable in interacting with stateless Somalia at the grassroots level. UN agencies and international NGOs are learning to engage local-level authorities as partners in rehabilitation work. Though little foreign aid is available for Somalia—the world has generally turned its back on a country that did so much to shatter hopes of a "new world order" in the early 1990s—a few UN agencies and international NGOs remain. Some have devised innovative ways to support capacity-building (enhancing the ability of local governments and communities to take on the responsibilities of good governance). This is the kind of long-term political development that may ultimately make possible the resuscitation of a central Somali government. ■

"On a continent where success stories are rare, Somaliland's modest progress deserves a better response than the international cold shoulder it has received so far. This is especially true because its brand of peacemaking is real, grounded in the cultural traditions of its people and not in the benevolent but ill-informed efforts of foreigners."

Somaliland Goes It Alone

GÉRARD PRUNIER

Since the United States–United Nations fiasco of 1992–1995, the world has heard little about Somalia except for the odd piece of news about clan fighting. Few have noticed that this news always concerns the south of the country. Fewer still realize that the northwestern part of Somalia seceded in May 1991 and is at peace. The self-proclaimed Republic of Somaliland has retained the borders of the former colony of British Somaliland and, since the end of the fighting in Somalia, has gone through a process of self-definition and institutionalization that has successfully blended traditional Somali culture with a version of Western democracy. What is perhaps most notable is that the entire process has taken place without foreign help, economic or otherwise.

FROM COLONIES TO DICTATORSHIP

The Republic of Somaliland is a product of the basic statelessness of Somali culture, a light form of colonialism during British rule, and the absolutely dysfunctional nature of the state-building process in the south in the former Somalia Italiana (Italian Somaliland). The first needs no elaboration for anyone familiar with the Somali people and their way of life.¹ The second is less obvious. The British governed their various colonies in every possible way, ranging from heavy-handed direct administration

to indirect rule. British Somaliland, like southern Sudan, belongs to the no-government category. Interested only in getting cheap meat to feed its Aden garrison and in keeping the French out, England treated its Somali colony with benign neglect. As a result, at independence in 1960 the territory was economically underdeveloped but blessedly untampered with at the level of native political institutions. The Somali system of peacemaking, vital in a conflictual nomadic society, remained largely intact.

The third factor is even less well known. When the UN was given the task in 1946 of administering Italy's former colonies, no ready solution presented itself. After the Soviet Union volunteered to act as trustee, Washington panicked and quickly brokered what amounted to a series of stopgap arrangements. This resulted in the weak Idris monarchy in Libya, the catastrophic Ethiopian trusteeship over Eritrea, and a renewed UN-sponsored Italian presence in Somalia Italiana.

Given the lack of personnel, most of the Italian administrators who went back to Mogadishu in 1947 and 1948 were the old fascist cadres of the 1920s and 1930s. They had learned little and forgotten nothing. During the 1950s their younger colleagues followed in their footsteps. Thus at independence in 1960 a basically stateless society was saddled with an authoritarian bureaucracy and a centralized state that had done its best to erase the traditional native institutions that it considered backward. And it is that state the northern Somali people, victims of the "Greater Somalia" dream, decided to join at independence. The state for all of Somalia was not the state of all the Somali people; it was the state of the Italian-trained southerners.

General Mohammed Siad Barre's military takeover in October 1969 served only to reinforce

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¹The best characterization of the style of Somali politics is given by the title of I. M. Lewis's classic work on Somalia: *A Pastoral Democracy* (London: Oxford University Press, 1961). "A Pastoral Anarchy" might have been even closer to the mark.

this trend, especially after he was warmly embraced by the Soviet Union. The Russians gave the regime the best administrative tools for totalitarianism known at the time: a single party, a controlled press, an omnipresent security apparatus, and an impressive military arsenal. After its defeat in the war against Ethiopia in 1978, the Siad Barre regime became even more repressive. In 1981 a small group of exiles from the former British Somaliland created in London the Somali National Movement (SNM), whose official aim was to overthrow the dictatorship. Among them, however, were a number who already thought that divorcing from the southerners might be a less politically correct but more interesting war aim.

The SNM fought, alone at first but with the financial backing of the Issaq clan diaspora in the Persian Gulf countries. After 1984, President Mengistu Haile Mariam of Ethiopia began to aid the guerrilla movement for geopolitical reasons; the worsening of the war in Eritrea led him to make peace with Somalia in 1988.

The SNM, abandoned by its protector, gambled on an all-out invasion and took over the major cities of northern Somalia immediately after the Ethiopian-Somali peace treaty in May 1988. A terrible repression followed, especially in the city of Hargeisa, which Siad Barre ordered destroyed by a deluge of artillery fire and air raids; 50,000 people died in one month and 350,000 fled to Ethiopia on foot. The war became merciless. Other insurgent fronts appeared in the south, and in January 1991 the regime collapsed, with Siad Barre fleeing the capital in a tank. The result was not peace, but anarchy.

SOMALILAND REBORN

In October 1990, as the war was drawing to an end, the two main southern guerrilla groups, the Somali Patriotic Movement (SPM) and the United Somali Congress (USC), joined with the SNM. The three agreed to fight the dictatorship to the end without any negotiation or compromise; they also agreed not to create a new government entity without consulting each other. When Mogadishu fell to the rebels, this compact was betrayed. Mohammed

Ali Mahdi, the leader of one of the USC factions, created a government on his own. The USC, a Hawiye-based movement, began ruthlessly killing all non-Hawiye living in Mogadishu in an attempt at "clan-cleansing." The victims were not only civilians belonging to the Darod group of clans that had supported Siad Barre, but also the northern Issaq who had fought him.

For the northerners, who already disliked their southern brethren's behavior during the war, this was the last straw. In February and March 1991, a *shir* (assembly) was held in Berbera in which the Issaq, the major northern clan family, decided that union with the south was a bad idea; they also decided not to take revenge on the prisoners of war they held but instead to release them to go home.

The Issaq, however, made up only about 70 percent of the northern population; the remainder was composed of the four other clan groups in Somaliland, the Issa, Gadabursi, Dolbahante, and Warsangeli.² These clan groups had mainly sided with Siad Barre, fearing that an SNM victory and eventual Somaliland secession would leave them uncomfortable minorities in an Issaq-dominated country. Prisoners of war from these northern clans were also pardoned and returned to their clan areas. Their worst fears were soon confirmed when a second *shir*, held this time in Burao, proclaimed in May the independence of the former British colony of Somaliland. Abd-er-Rahman Tur, the head of the SNM, automatically became president of the reborn country.³

Thus, as civil war raged in the south, both between the guerrillas and the remnants of the former regime and between the various components of the guerrilla movement itself, the north seemed to be making a start in the right direction. This did not last long: in October 1991 it faced its first armed rebellion.

The rebellion occurred because the SNM leadership (which had become the leadership of Somaliland) was mainly controlled by the Habr Garhadjis group of clans, a situation that was bound to be challenged by other members of the Issaq family. At the same time, the Habr Awal of the Issa Mussa sub-clan, a majority in the area of Berbera harbor, refused to share port revenues with other clans. In a cash-strapped country they wanted to keep for themselves the only source of cash around: the money from customs.

The dominant Habr Garhadjis, claiming to be acting "in the interest of the state," attacked Berbera. This could have been the start of total clan anarchy like that seen in the south. It was not, for

²The Issaq clan family is made up of the Habr Awal, the Habr Garhadjis, and the Habr Ja'alo clans.

³We can say "reborn" because Somaliland had briefly existed as a separate state between June 27, 1960, when it was granted independence by Great Britain, and June 30, 1960, when it decided to merge with the former Italian Somaliland.

two key reasons. First, unlike the southern guerrilla groups, the SNM was a well-organized, "old" movement with strong grassroots support. Issaq civilians from all clans roundly condemned the violence by their armed sons. Second, the peace mechanisms that had existed before the war were still available.

In September 1992, after nine months of sporadic fighting, popular pressure finally led to the convening of a large shir in the town of Sheikh. Peace was made between the two main clan actors in the conflict, the Habr Garhadjis and the Issa Mussa subclan. A few months later, rebounding from this success, the country's leaders arranged for what they called a "second national conference" (the first having been the Burao shir that had proclaimed independence). This new gathering lasted almost five months, from January until May 1993.

We should perhaps say a few words about the nature of a Somali shir. A shir is, as was noted, an assembly, but it does not have much in common with the Western concept. A shir is a traditional conflict resolution structure that brings together all the mature men of the clans involved in a conflict. Women, children, and young hot-blooded warriors are excluded. Men lounge under thorn trees during the hot, dry day. They chat and drink tea. They also spend long hours chewing qat, the mildly euphoric drug grown in the Horn of Africa, smoking, greeting each other, delighting in the pleasure of meeting old friends—or old foes.

Slowly, everything will come into focus. People will come and go. Small groups will sit apart and hotly debate issues. Poems will be composed and sung. There will be praise and laughter, even insults at times. Small fights may break out, quickly stopped by other shir participants. Old quarrels will resurface, murders of 20 or 30 years ago. Impassioned speeches will be made, some completely irrelevant but highly gratifying to the orators in this beautifully oral culture.

Finally, judgments will be rendered and *maag* (blood price—compensation in cash or camels) will have to be paid, which some will not be able to afford. Friends and relatives will band together to help make recompense.

At the same time, like so many sideshows but in fact essential to the success of the main event, matrimonial arrangements will be decided, camels will be bought and sold, business deals struck, news

exchanged, and future political alliances brokered. The entire assembly will look like a giant social gathering rather than a political conference.

At some point, things will jell. The various pieces that make up the main issue for which the shir was called will fall into place because a social climate conducive to a solution will have slowly emerged. The result will be a proper peace, a real peace felt from inside—a peace that will have nothing in common with the quick-fix conferences in air-conditioned hotels in Addis Ababa organized by the UN in 1993 and 1994. Somalis attended then to get the per diem, go shopping, and return home, scheming on how to get more cash from the stupid gal (Christians); peace was the last thing on their minds. In such a traditionally violent society as Somalia's, peace is not something to be treated lightly—and conferences in international hotels are a very light treatment in Somali terms because they do not address the real issues, because they do not fit into an all-inclusive social process, and because they do not involve the necessary people.

In the south, the UN organized conferences with the warlords, which was akin to asking a fox for his opinion on poultry raising. In Somaliland, people still close to the traditional fibers of their culture knew better than to make this mistake. The shir was designed to politely marginalize the warlords by diluting their rapacious energy in the soothing wisdom of older men. This was, however, difficult to achieve. The second national conference in Borama between January and May 1993 had elected a new president, Mohammed Ibrahim Egal. Egal is a Habr Awal of the Issa Mussa subclan. The Habr Garhadjis did not fully accept their electoral defeat, and after a long interlude of uneasy peace from May 1993 to October 1994 fighting broke out again, this time with the Habr Garhadjis as challengers.

The war lasted about a year. During a major shir in October 1995, an "almost general" peace was made, the Habr Yunis subclan reconciling with the Habr Awal and their Habr Ja'alo allies. Why call it an "almost general" peace? Because the Eidagalley subclan stayed out; many people think that the lack of a proper reconciliation process with this group is the Achilles' heel of the regime. But peace had finally broken out and there was now room for a half-modern, half-traditional process of institution-making.

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PUTTING A GOVERNMENT IN PLACE

The institutionalization of the Somaliland state began in October 1996 with the third national conference. The conference was held in Hargeisa and lasted until March 1997. This time the eastern non-Issaq clans (the Warsangeli and especially the Dolbahante) were deeply involved. The two clan wars of 1992 and 1994–1995 had been fought among the various Issaq clans while their non-Issaq former enemies had remained a minority of bystanders. It was only in late 1996 that the non-Issaq thought it worthwhile to become seriously involved. They realized that the Issaq were serious in their attempts at peacemaking among themselves and wanted to create viable institutions for the self-proclaimed republic.

During its six-month tenure the third national conference wrote a constitution; created a two-chamber assembly with a parliament and a "Senate of the Clans" based not on individual but on clan representation; organized a supreme court; and formalized the presidential and cabinet roles. Most important, the conference's creations were actually put to work. An assembly was elected. The supreme court also convened and—test of all tests—decided to free Mahmood Abdi Shidde, the irksome chief editor of the main opposition paper, *Jumhuriyya*, who had been arrested on orders from President Egal.

This largely successful effort immediately paid dividends in the eastern part of the country, where the Dolbahante had previously remained aloof. They now had one of their own, Mohammed Salah Nur "Fagadeh," in the important Ministry of Foreign Affairs, and decided to throw in their lot with "Somaliland" despite some reservations.

FINANCIAL WOES

The country's economy is generally not bad, with cattle exports to Saudi Arabia and the Persian Gulf states steadily expanding.⁴ The major problem is the lack of a banking system, serious public

accounting, and, consequently, a reliable tax base. Somaliland expects some form of foreign help in correcting these deficiencies. As President Egal said recently in a tongue-in-cheek remark during a press conference in Paris: "At first, we were very bitter about not being recognized by the international community. But when we saw the UNOSOM mess in the south, we thought maybe this was a blessing in disguise. Still, we should not stretch this too far."

Yet the situation has been stretched far. While \$4 billion was spent in the southern United States–United Nations adventure without furthering the cause of peace, not a penny went to Somaliland, which has had to pull itself up by its own bootstraps. There is no school system, no reliable health care, only a threadbare road maintenance service, and a small and underpaid civil service. There is also a legacy of the past: an oversize army nobody knows how to trim that consumes 70 percent of the government's budget.

The army is a financial drain, but without cash to demobilize it, it is also a time bomb. While Somaliland's militiamen are more disciplined than their southern brethren, they are not basically different from them. They are young, restless, and have a history of violence, and they are unable to marry and integrate socially because they do not have the money it would take. With money, or even better, cattle, they could settle down. The cattle are available—at a price. But there is no financing. And as long as these young men are kept under arms, there can be no budget surplus.

This is of course a vicious circle the international community could break at a very low cost. President Egal's recent tour of Ethiopia, Eritrea, Italy, and France was a step in the right direction. Ethiopia and Eritrea have exchanged quasi-ambassadorial envoys with Hargeisa. Djibouti has done the same. Paris is prudent, but Rome has offered some budget support and promised to sponsor a motion at the European Parliament in Strasbourg to give Somaliland a "national authority" status somewhat similar to that held by the Palestinian Authority.

On a continent where success stories are rare, Somaliland's modest progress deserves a better response than the international cold shoulder it has received so far. This is especially true because its brand of peacemaking is real, grounded in the cultural traditions of its people and not in the benevolent but ill-informed efforts of foreigners. ■

⁴A ban on cattle exports that was initiated by Saudi Arabia at the prompting of Egypt and the Arab League (both wanting to destroy Somaliland, which they consider "secessionist") has recently crippled the trade. Since cattle exports are the government's only tax base, a continuation of the ban could cause the infant state to collapse (it is already unable to pay its large and somewhat unruly clan army).

"The July 1997 elections transformed the nature of politics in Liberia. . . . An assessment of whether [they] served as the beginning of a democratic era will have to wait until future elections in which the voters are given a choice among viable candidates rather than a choice between war and peace."

Liberia's Path from Anarchy to Elections

TERRENCE LYONS

On Christmas Eve 1989, Charles Taylor and his National Patriotic Front for Liberia entered northern Liberia from Ivory Coast with the intention of overthrowing the authoritarian government of President Samuel Doe. The seven years of conflict that ensued were marked by brutal fighting and the collapse of the Liberian state; one-tenth of the prewar population of 2.5 million people died, one-third became refugees, and nearly all the rest were displaced at one time or another.

In response to the destabilizing threat the conflict represented, a West African peacekeeping force intervened in 1990, but only in August 1996 was a final peace agreement signed. This was followed by an election on July 19, 1997, in which Liberians voted to implement the agreement and overwhelmingly selected Taylor to lead the postconflict government.

While it undoubtedly represented a transformation of the Liberian conflict, the significance of the election is open to question. Liberia now has a constitutional government that maintains order across the country, but a series of challenges remain: rebuilding the basic infrastructure of the state, repatriating hundreds of thousands of refugees and internally displaced persons, creating reformed security forces, and institutionalizing the rule of law and democratic governance.

LIBERIA'S COLLAPSE

On April 12, 1980, a group of noncommissioned officers led by Master Sergeant Samuel Doe overthrew Liberia's single-party regime. Doe's regime came to rely increasingly on a military dominated

by his Krahn ethnic brethren. In 1985, the regime held an election marked by large-scale fraud; a failed coup in the aftermath led to massive reprisals against the Gio and Mano peoples, who were considered supporters of the coup leaders.

In response to Doe's increasingly authoritarian measures, Charles Taylor, a former official in Doe's government, organized the National Patriotic Front for Liberia and staged his 1989 Christmas Eve invasion. As the NPFL advanced, Doe's military unleashed a scorched earth campaign in the north, further terrorizing the Gio and Mano ethnic groups and pushing them into the NPFL camp. By July 1990, the insurgents had advanced to the outskirts of Monrovia. Chaos in the capital, with widespread looting and ethnic killings, convinced Liberia's neighbors in the Economic Community of West African States (ECOWAS) to intervene in August. The operation, known as the ECOWAS Cease-Fire Monitoring Group (ECOMOG), began (and largely remained) a Nigerian initiative presented as a *fait accompli*.

Taylor rejected ECOMOG's intervention from the start, arguing that it shored up Doe's tottering regime and denied him the position of power he had earned. NPFL forces attacked the West African troops as they landed in Monrovia, forcing ECOMOG to adopt a peace-enforcement mission. When ECOWAS-sponsored peace talks selected Amos Sawyer, the leader of the Liberian People's Party (LPP), to head an interim government, Taylor refused to participate in the talks or in the interim government.

In September ECOMOG began a military campaign that drove Taylor back from Monrovia and then brokered a cease-fire in November 1990. The agreement created an uneasy peace, with "Greater Monrovia" governed by the interim government and protected by ECOMOG while the rest of the country was controlled by Charles Taylor from his "capital" in Gbarnga, in northern Liberia.

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The next five years, however, saw a series of failed peace agreements and an expansion of the conflict. New militias formed to engage in looting and to win a place at the table in negotiations to create a new government. The United Liberation Movement of Liberia for Democracy (ULIMO), organized with the assistance of Sierra Leone, fought Taylor in the north and west. ULIMO eventually split between its Mandingo wing, led by Al-Haji Kromah (ULIMO-K), and its Krahn wing, led by Roosevelt Johnson (ULIMO-J). An additional Krahn-based faction, the Liberia Peace Council (LPC), led by George Boley, controlled areas in the southeast for a time. Taylor's NPFL also split and the plethora of factions and rivalries made reaching a negotiated settlement difficult.

In addition, many of the factional leaders profited from the war and risked losing power and wealth in any peace agreement. Taylor, ruling 95 percent of Liberia, managed his own currency and banking system, ran his own radio network, and engaged in international trade in diamonds, gold, rubber, and timber. Much of the fighting between the NPFL, ULIMO, LPC, and ECOMOG was over control of economic assets such as mines and ports that served to finance and sustain the armed factions. Only rarely did organized militias confront each other. The war was largely fought between unarmed civilians and ruthless gangs, often composed of child soldiers, looking for loot or trying to secure economically important territory.

ECOMOG and Nigeria in particular identified Taylor as the obstacle to peace and attempted to defeat him. The West African forces formed alliances against the NPFL with ULIMO and the former Liberian army. At the same time, ECOMOG participated in the market of looted and expropriated goods, perpetuating the war economy that allowed the factions to exist.

FIRST STEPS TOWARD PEACE

Efforts by West African leaders to construct a workable interim government went nowhere until a June 1995 meeting between Taylor and the head of Nigeria's military government, General Sani Abacha. Under pressure from an increasingly impatient ECOWAS, the factions signed an agreement in Abuja, Nigeria, in September 1995. The Abuja Accords created a new six-member Council of State that included the top leaders of the NPFL, ULIMO-K, and the LPC, along with civilian representatives from political parties, traditional leaders, and a university professor.

The accords called for disarmament by January 1996 and elections by August 1996, a very short timetable. As with earlier agreements, however, implementation stalled; disarmament quickly fell behind schedule, and ECOMOG could not deploy throughout the country. Roosevelt Johnson and his ULIMO-J faction defected from the agreement and attacked ECOMOG peacekeepers in December 1995.

Violence reached new heights in April when another round of vicious fighting erupted in Monrovia. Taylor and his ally of the moment, ULIMO-K head Kromah, dismissed Johnson from the interim government and moved against his largely Krahn militia. The ensuing fighting destroyed the city and ended hopes that Liberia could hold an election in the near future.

In the course of the April 1996 crisis nearly every humanitarian organization, UN agency, government office, and commercial establishment was looted, with special attention paid to destroying the human rights groups, the Catholic radio station, and other elements of the small but courageous civil society in Monrovia. In response, nearly all international humanitarian workers were evacuated.

The collapse into murderous anarchy forced Liberia's neighbors to again reassess their policies toward the conflict.

A further round of talks in Abuja in August 1996 resulted in a revised agreement. Abuja II reaffirmed the Abuja I framework but extended the timetable for implementation by nine months and threatened sanctions—including a prohibition against running for elective office and prosecution by a war crimes tribunal—against any leader who violated the agreement. Under Abuja II, disarmament was to begin in November 1996 and elections were scheduled for May 1997. A new cease-fire was declared on August 20, 1996, and Ruth Perry, a former senator, became the new chair of the reformed Council of State, and Africa's first female head of state.

Cease-fire violations during the fall threatened to derail the Abuja process. Despite the evidence that factions were violating the agreements, ECOWAS decided not to invoke sanctions for fear that parties singled out for punishment would withdraw from the peace process, compelling ECOMOG to return to peace enforcement.

Although disarmament began slowly in November 1996, it picked up momentum toward the end of January 1997. ECOMOG collected large quantities of weapons, and for the first time in years factional

Many Liberians believed that if Taylor lost the election, the country would return to war.

roadblocks became rare and guns were not visible on the streets except in the hands of the peacekeepers. While many arms were collected, demobilization in terms of breaking the command and control structures over fighters was far less complete. Scarce resources and poor planning reduced demobilization to a 12-hour process whereby former combatants simply turned in a weapon (or even a handful of bullets), were registered, and then left. Few doubted that the most reliable fighters avoided demobilization while the young and inexperienced went through the process in the hope of obtaining social benefits.

ELECTIONS ON THE QUICK

A newly created independent commission, consisting of representatives from the three main factions and from civilian parties, women's and youth groups, and unions, struggled to organize the 1997 elections under extremely tight time and resource constraints. Most political parties and civic organizations pressed for a delay in the elections but Taylor and ECOMOG continued to call for adherence to the May 30 deadline.

On May 16, ECOWAS finally agreed to a delay until July 19, providing just two more months to organize the elections. Refugees in neighboring states, estimated to number 800,000, could vote only if they returned to Liberia. Given the lack of facilities to receive them, most were effectively disenfranchised.

At the end of February, several factional leaders who were running for office converted their militias into political parties. Charles Taylor transformed his NPFL into the National Patriotic Party (NPP); Al-Haji Kromah disbanded ULIMO-K and established the All Liberian Coalition Party (ALCOP); and LPC leader George Boley eventually became the standard-bearer for the late President Doe's former party, the National Democratic Party of Liberia (NDPL). Roosevelt Johnson, the ULIMO-J leader at the center of the April 1996 fighting, announced that he would not seek office.

A number of previously established political parties also began organizing for the upcoming campaign. These civilian parties founded the Alliance of Political Parties and held a contentious convention in March. Allegations of vote buying and competition among various leaders, however, led several parties to withdraw. The Unity Party left the Alliance and nominated former United Nations official Ellen Johnson Sirleaf as its candidate.

Sirleaf and the Unity Party soon appeared to be the leading challenger to Taylor and his National

Patriotic Party. The Alliance of Political Parties crumbled; the other parties were either regionally or ethnically identified or were small, with only a limited capacity to campaign in the countryside. Taylor's NPP, however, had enormous financial and organizational advantages, building on the structures developed during the war and the resources controlled as a result of the conflict.

Both Sirleaf and Taylor spoke of reconciliation, reconstruction, and economic revival but the campaign did not stress differences in platforms. The overriding issue was peace. A great many Liberians believed that Taylor would return to war if he lost the election, his commitments in the Abuja Accords and to ECOMOG notwithstanding.

On election day, July 19, 1997, Liberians turned out in large numbers, with an estimated 85 percent of those registered voting. Approximately 500 international observers watched the election and generally commended the process. The United Nations Observer Mission in Liberia and ECOWAS issued a joint certification that declared the electoral process was "free, fair, and credible." Taylor won the presidency in a landslide, with more than 75 percent of the vote, followed by Sirleaf, who took 10 percent.

Some leaders from Sirleaf's Unity Party, along with Kromah's ALCOP and Boley's NDPL, protested that the elections commission and ECOMOG had engaged in widespread fraud and that the results were not credible. As the size of Taylor's margin became more apparent and positive observer reports were issued, Sirleaf moderated her statements and began to urge her supporters to prepare for a role as a strong and constructive opposition. On August 2, 1997, Taylor was sworn in as president of Liberia.

WHAT THE RESULTS MEAN

A number of factors contributed to the NPP's overwhelming victory. Taylor successfully converted his military faction into an effective political machine. Nearly every town in Liberia had an NPP office and the country was covered with Taylor signs, bumper stickers, and T-shirts. Taylor's NPFL had operated as the *de facto* government in much of Liberia for years and his organization therefore had a network throughout the countryside unmatched by his rivals.

Taylor also had far greater resources than his competitors. In a country with few vehicles, Taylor had the money to bring in Land Rovers, buses, motorcycles, and trucks and to lease a helicopter. Taylor controlled the formerly state-owned short-wave radio station and thereby dominated the air-

waves through which most Liberians outside Monrovia received their news. The NPP distributed rice to prospective voters and engaged extensively in patronage politics. While the electoral code of conduct placed limits on campaign spending, the lack of enforcement mechanisms allowed Taylor to spend freely. No attempts were made to force the former guerrilla leader to give up resources he had seized during the war.

Taylor campaigned widely and his rallies matched political speeches with popular entertainment, including music, dance, fashion shows, and games. After so many years of grim warfare, Taylor's campaign offered a return to the normal pleasures of the past. Taylor was a master of highly visible generosity and won publicity by paying to fly Liberia's national soccer team to the African Nations Cup tournament, funding the Charles Ghankay Taylor Educational and Humanitarian Relief Foundation, and donating ambulances to the John F. Kennedy Hospital in Monrovia. In his speeches, Taylor promised expansive new programs to address the full range of social needs. His populist message resonated with many of Liberia's poor who regarded Sirleaf as the candidate of the educated, cosmopolitan elite. In some parts of Liberia, Taylor was a popular figure who was remembered for defending communities against attacks from rival militias and for maintaining relative order in his zone of military occupation during the war.

While financial and organizational advantages were critical, they were least important in populous Montserrado County (the area around Monrovia), where easy transportation, FM radio, and a wide range of newspapers were available. Taylor won Montserrado with 55 percent of the vote to Sirleaf's 22 percent, suggesting that far more than the resource imbalance explained the landslide.

Perhaps most important, the memory of seven years of brutal conflict and the consequent fear clearly shaped how many voters viewed the election and the choices available to them. The issue of peace dominated and most voters seemed determined to use their franchise to maximize the chances of stability. Many Liberians believed that if Taylor lost the election, the country would return to war. Taylor's rivals pointed to his violent past during the campaign but could not propose credible actions to contain him if he refused to accept the results. With ineffective demobilization, weak measures to prevent a spoiler from challenging the results, and statements from ECOWAS reiterating its intention to leave quickly after the voting, Liberian

voters would have risked a return to conflict by electing someone other than Taylor.

For elections to be fully meaningful, however, they must provide voters a significant choice. Given the legacy of the recent conflict and the pervasive fear that Taylor would fight if not elected, many Liberians made a calculated choice that they hoped would more likely promote peace and stability. One Liberian said "He [Taylor] killed my father but I'll vote for him. He started all this and he's going to fix it." While a significant number of voters identified with Taylor and his populist message or patronage, many simply seemed cautious and war-weary. In the end the elections ratified and institutionalized the political topography and imbalance of power created by seven years of war.

The means by which Taylor's power was ratified, however, mattered. Taylor won international, regional, and local acceptance for his government through a process of elections rather than through a military victory or a negotiated agreement among factional elites and regional powers. To win the election Taylor converted his military organization into an effective mass-mobilizing political party, replacing guns with patronage and roadblocks with rallies. In addition, the election and return to constitutional rule placed legal limits on the new regime's power. The extent to which Taylor's organizational base will act as a democratic political party and the degree to which the new administration will adhere to constitutional constraints remains, of course, open.

PROSPECTS

The July 1997 elections marked the successful implementation of the Abuja peace process and brought to an end seven years of bloody fighting. It is too early to judge whether the new institutions will be able to prevent a resurgence of violence, although the experiences of other postconflict countries and Taylor's own past behavior suggest that constitutional constraints on power and the ability of voters to hold their leaders accountable often are not sufficient. In its first few months in office, the new regime's record was mixed, with a number of developments providing continuing and perhaps growing grounds for concern.

Taylor's government faced tremendous hurdles following its inauguration. The treasury reportedly contained \$17,000 while the government had \$200 million in domestic debt (notably back wages for civil servants who had not been paid in many cases for over a year) and \$2 billion in foreign debt.

Refugees were beginning to return but little was in place in the countryside in terms of housing or jobs to receive them. The war left a legacy of fear and distrust, along with a damaged infrastructure, looted factories, and ravaged communities, that will take generations to overcome. Conditions in Liberia would challenge any government.

Taylor pledged to rule on behalf of all Liberians, appointed a few opponents to minor cabinet positions, and established a human rights commission and a reconciliation commission. But other actions raised fears. Harassment of the media, for example, suggested that the new regime will resist accountability and will not allow criticism.

International observers applauded some government appointments, such as the selection of former World Bank official Elias Saleeby as finance minister, but were concerned about others, such as the choice of NPFL stalwarts Joe Tate as chief of police and Joe Mulbah as information minister. The economic challenges of reconstruction remained daunting, and international donors and

financial institutions waited, skeptical and hesitant.

The role of ECOMOG in Liberia following the elections added to the difficulties. Although the Abuja II agreements mandated that ECOMOG build a restructured Liberian army, Taylor asserted his rights as duly elected head of state to create his own military. Many reported that the new security forces were filled with old NPFL fighters while other groups, particularly the Krahn, were systematically purged from the army.

Regardless of the longer term outcome, the implementation of the Abuja Accords through the July 1997 elections transformed the nature of politics in Liberia. But Taylor's electoral victory was attributable in part to the material advantages he derived from his role during the war and to the pervasive fear that unless he won, conflict would return. An assessment of whether the elections served as the beginning of a democratic era will have to wait until future elections in which the voters are given a choice among viable candidates rather than a choice between war and peace. ■

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legislative elections in June 1993 and was rebuffed. In desperation the Congolese president turned to America's Occidental Petroleum, which quickly advanced \$150 million in exchange for future oil production. Lissouba disbursed the funds in government pay envelopes and narrowly prevailed in the elections. Although the unseemly (and unprofitable) "Oxy" deal was eventually abrogated, Lissouba's standing with the French remained low.

This history largely explains why France took the position of "principled nonintervention" during the 1997 war, a position that contrasted sharply with its sustained support of the elected regime in the neighboring Central African Republic when it faced armed opposition on three occasions in 1996. Sending an unmistakable message to the Sassou camp, President Chirac even refused to receive Lissouba during his September 1997 visit to France. Lissouba's supporters charged repeatedly that Sassou's French friends in and out of government were smuggling arms into Congo through Gabon and the Central African Republic. Many Congolese further suspected that Elf, which has its own security department, also aided Sassou.

BAD POLITICAL HABITS

Political culture acted as another structural impediment to reform in Congo. Although political habits are certainly hard to break, individual political figures do have more control over their own actions than, say, those of IMF officials, Elf political analysts, and French foreign policy makers. One of the worst habits of Congo's political class—the financial patronage of political cronies—was well established before Lissouba's ascent to power.

Lissouba did precious little to break this pattern, since his ministers liked the perquisites of power as much as their predecessors. Given that Lissouba had won a clear mandate in 1992, patronage was not necessary to keep him in office, but was instead a way to consolidate his power with an eye toward the 1997 elections.

Another hard habit for Lissouba to break was the authoritarian impulse. His regime never made a serious attempt to establish an independent judiciary, and the rule of law remained tenuous. Most egregious was his behavior during the parliamentary crisis of November 1992. Three months after his election, the parliamentary coalition of his own political party, the Union Panafricaine pour la Démocratie Sociale (Pan-African Union for Social Democracy, UPADS), and Sassou's PCT broke down. Sassou decided to cast his lot with Lissouba's main opponent at the

moment, Bernard Kolélas, whose Mouvement Congolais pour la Démocratie et le Développement Intégral (Congolese Movement for Democracy and Comprehensive Development, MCDDI) held the second-largest number of parliamentary seats after UPADS; this about-face, termed an "alliance against nature" because of Kolélas's former hostility towards Sassou, gave the PCT-MCDDI coalition a majority. Lissouba promptly dissolved the National Assembly and called for new elections, failing to follow constitutional procedures in the process. In the subsequent rerun of the elections in mid-1993, Lissouba's coalition, the Mouvement Présidentielle (Presidential Domain), gained a slim majority of seats.

Not surprisingly, the opposition coalition accepted neither the dissolution of parliament nor the subsequent elections, although they were considered to have been relatively free and fair. Meanwhile, all three of the main contestants for power—Lissouba, Sassou, and Kolélas—had begun training their private militias soon after the 1992 elections. By the second half of 1993, Brazzaville was being divided into three fiefdoms, each controlled by the militia of its respective political and ethnic representative. This led to frequent clashes among the militias, as well as to the kidnapping of opponents, ethnic cleansing of neighborhoods, and random violence. By the end of the year a virtual civil war raged between Kolélas's "Ninjas" and Lissouba's armed supporters inside and outside the army. Official estimates are that at least 2,000 Congolese were killed in this round of violence. Only in 1994 was a modicum of civil peace restored following a public reconciliation between Lissouba and Kolélas.

The events of 1993 reveal two more destructive political habits in Congo: the mobilization of ethnic constituencies to bolster a political position, and the ready resort to force to resolve political conflicts.

Colonial Congo was a typically heterogeneous African state, which means that the borders defined for Congo by Europeans a century ago have condemned the country to structural ethnic problems that impede development of a national consciousness. Moreover, colonial authorities reinforced ethnic identities among the Congolese both out of expediency and as a divide-and-rule tactic. It was hardly surprising when Congo's first multiparty government at independence in 1960, led by the Lari politician Fulbert Youlou, had difficulty containing ethnically based challenges. The country's three PCT presidents prided themselves on a public program of national consciousness-building, even if each also relied disproportionately on loyal

Mbochi or Kouyou kinsmen to fill key party, government, and army positions. While their "nationalist" rhetoric did not extinguish ethnic and regional consciousness, ethnic politics did decline from the late 1960s through the 1980s.

Openly ethnoregional politics quickly reemerged with the collapse of the one-party state in 1991. The 1992 elections clearly reflected Lissouba's regional base in the southern areas of Niari, Lekoumou, and Bouenza; Kolélas's base among the Lari people and in the central Pool region; and Sassou's constituency among the Mbochi in the north. Each of these various ethnoregional constituencies is further represented in distinct Brazzaville *quartiers* (neighborhoods), whose borders became battle lines in 1993 and again in 1997. Nonetheless, it must be stressed that ethnic identities in Congo are extremely fluid: a variety of ethnoregional constituencies might have been constructed out of the Congolese ethnic mosaic, and politicians might have sought a different basis on which to mobilize political support.

Among Congo's three main politicians, Lissouba was best positioned to build a transethnic coalition from the country's ethnic groups. The new president did reach out to many leading figures in other ethnic and regional constituencies, but most Congolese viewed these overtures as more an attempt to encroach on an opponent's turf than to build a regionally balanced administration. Lissouba also came to rely heavily on the advice and support of four Bembe ministers from the Bouenza region, inevitably dubbed the "gang of four." The concentration of Bembe politicians at the center of power rankled many Congolese.

Oddly, the resort to force in Congolese politics came not from the army but from the key political figures, who constructed militias from their ethnic and regional constituents and used them to undermine constitutional proceedings. Sassou may have been the first to create a militia from the remnants of his former presidential guard in 1991 and 1992, but Lissouba and Kolélas soon followed his example. Lissouba was forced to rely on a private militia because he had little faith that the army would do his bidding. With the outbreak of civil war, many in the army did in fact either defect to Sassou or simply return to their villages, refusing to take up arms against their own countrymen.

INDIVIDUAL CHOICES

While the structural features of Congo's economy, society, and politics created a difficult envi-

ronment for democratic consolidation, none of the impediments was insurmountable. Congo's key politicians might have acted differently than they did in nearly every crisis; rarely did domestic circumstances or foreign partners tightly constrain their actions.

Congo's economic situation, difficult though it was, was not the cause of the democratic failure of 1997. The country's urban poor and peasants may have been disillusioned because of economic stagnation and lack of opportunity under Lissouba, but they did not bring down his regime and end the democratic experiment. Instead, it was the major political figures in the country, aided by a small slice of the lumpen proletariat, who waged war on one another. The rest of society was simply caught in the middle.

As for foreign relations, France's coolness to the new Congolese system and its leaders was not predestined either; a more sensitive diplomacy and less grasping domestic policies might have yielded a more supportive French policy. If France had intervened in 1997, it would surely be condemned today for having saved Lissouba's corrupt regime. The role of Elf-Aquitaine is also open to question; according to Antoine Glaser and Stephen Smith, writing in the February 4, 1998, issue of *Libération*, a French bank closely linked to the oil company was making loans to the Lissouba camp in September 1997, with which it was purchasing arms. Elf, then, was aiding both sides. Neither France nor Elf bears the primary responsibility for the failure of Congo's political class.

In examining Congo's ethnoregional conflicts, it is clearly the case that the impetus for violence came from above, not from below. It was not "tribesmen" or villagers who stimulated the violence, but Congo's reckless, power-hungry politicians. Similarly, with regard to military interference in politics, the troubles did not begin in the ranks, but with the political class, which could not agree on creating an apolitical armed forces.

While structural constraints certainly preclude Congo from becoming the "*petite Suisse d'Afrique*" (little Switzerland of Africa) that Lissouba dreamed of, there is a range of possible outcomes that Congo's political class can determine. Few expect President Denis Sassou-Nguesso to return the country to the path of democratic experimentation. But whether Congo comes to resemble more closely Museveni's Uganda or Mobutu's Zaire is now largely in his hands. ■

THE MONTH IN REVIEW

March 1998

INTERNATIONAL

International Criminal Tribunal on War Crimes in the Former Yugoslavia

March 9—Former Bosnian Serb paramilitary commander Dragoljub Kunarac pleads guilty to charges that he raped Muslim women in the town of Foca during the Bosnian war in 1992; Kunarac is the 1st person ever to plead guilty to rape as a war crime.

United Nations

March 27—The Security Council unanimously approves a peacekeeping mission for the Central African Republic; the CAR presidency of Ange-Félix Patassé has faced 3 coup attempts by mutinous soldiers since May 1996; the resolution authorizes a force of 1,350 UN-African troops to remain for at least 3 months.

United Nations—Iraq Accord

March 27—UN weapons inspectors accompanied by diplomats complete 2 days of visits to Iraqi presidential sites previously declared off-limits by the Iraqi government; under the February UN-Iraq accord, inspectors are granted unrestricted access to sites suspected of containing biological and chemical weapons, and are to be accompanied by senior diplomats appointed by the UN secretary general.

BOSNIA AND HERZEGOVINA

March 15—Robert Owen, an American who is the international arbiter for the town of Brčko, postpones for at least 9 months a decision on whether it will be kept under Bosnian Serb control or transferred to the Muslim-Croat Federation; more than 40,000 Muslims and Croats fled, were expelled, or were killed when Serb forces captured the town in 1992; Serbs claim they need Brčko to connect the 2 parts of the Bosnian Serb Republic, while Muslim and Croat officials say the federation needs it as a trade link to Europe.

CAMBODIA

March 4—A military court convicts Prince Norodom Ranariddh in absentia of smuggling weapons and sentences him to 5 years in prison; Prime Minister Hun Sen, who ousted Ranariddh as his co-prime minister in a coup last July, maintains that Ranariddh was preparing at the time to mount his own coup with help from Khmer Rouge guerrillas.

March 21—King Sihanouk pardons Ranariddh.

March 30—Ranariddh returns to Cambodia from his exile in Thailand.

CHILE

March 10—General Augusto Pinochet, who ruled Chile from 1973 to 1990, steps down as chief of the army. Pinochet is to be sworn in tomorrow as a "senator for life," a position that will shield him from prosecution for crimes committed during his rule.

CHINA

March 16—The National People's Congress formally reelects Jiang Zemin president and elects Li Peng, who had been prime

minister for 10 years and who played a major role in the 1989 Tiananmen Square crackdown, as its next chairman.

March 17—The National People's Congress names Zhu Rongji, an economic reformer, prime minister.

COLOMBIA

March 8—In congressional elections today, the governing Liberal Party wins with 52% of the vote for the Senate and 53% for the House of Representatives; the Conservative Party takes just 27% of the Senate vote and 17% of the House vote.

CONGO

March 31—A constitutional commission submits a draft constitution to President Laurent Kabila under which the president would serve a 5-year term with 1 chance for reelection, the committee also submits a "provisional list" of 250 people who would be prohibited from running for president; the list includes Congo's most popular opposition leader, Étienne Tshisekedi, who was recently forced into internal exile by Kabila's government.

EGYPT

March 22—Members of the militant Islamist Group attack 2 villages south of Cairo, killing 4 policemen and wounding at least 13 other people, the gunmen escape after clashes with police.

INDIA

March 4—Final results of last month's national elections are announced, with the Hindu nationalist Bharatiya Janata Party (BJP) and its allies winning 250 of the 543 parliamentary seats being contested, the Congress Party and its allies took 166 seats, and the United Front coalition, which led the previous government, 98.

March 19—BJP parliamentary leader Atal Bihari Vajpayee is sworn in as prime minister and a new cabinet is named.

INDONESIA

March 6—The IMF says it will delay the release of \$3 billion to Indonesia until at least next month because of the country's failure to enact IMF-supported economic reforms, in January President Suharto agreed to the reforms as part of a \$43 billion IMF-led bailout package.

March 10—President Suharto is unanimously reelected by the 1,000-member People's Consultative Assembly; Suharto has ruled Indonesia since 1965.

March 16—The East Timor Action Network, a human rights group, makes public US Defense Department and other documents showing that the US has been training Indonesian military forces since 1992 in an apparently legal program that nevertheless undercuts a congressional ban meant to curb human rights abuses by Indonesian troops.

March 24—The US announces that it will provide more than \$56 million in emergency food and medical aid to Indonesia.

ISRAEL

March 4—Parliament elects Ezer Weizman to a 2d 5-year term as president, a largely ceremonial office.

March 10—At a West Bank-Israel checkpoint, Israeli soldiers shoot and kill 3 Palestinian laborers returning from work in Israel; 2 Israeli soldiers are later arrested for the shooting.
 March 11—In the West Bank, 15 Palestinians are wounded by Israeli security forces firing rubber bullets during protests of yesterday's killing

ITALY

March 7—US Defense Department officials say a military investigation has concluded that the American pilot and crew are to blame for an accident last month in which a US jet on a training flight in northern Italy severed a ski-lift cable, killing 20 cable car passengers.

KOREA, SOUTH

March 12—President Kim Dae Jung frees an estimated 74 political prisoners and more than 2,200 other inmates, and clears the records of 5.5 million South Koreans (mainly of traffic violations and other minor offenses), a leading South Korean human rights group expresses disappointment in the amnesty, saying it had submitted a list of 500 political prisoners that should be pardoned; Kim himself is a former political prisoner.
 March 28—The government says it will ease curbs on investment in North Korea, lifting a \$5 million investment ceiling and dropping other controls; business travel and visits by elderly people to North Korea will also be allowed

MALAYSIA

March 26—Eight immigrants and 1 police officer are killed in rioting at 3 detention camps outside Kuala Lumpur (another estimate puts the number killed at 25), the riots were touched off by a mass deportation of nearly 1,500 illegal Indonesian immigrants, largely Acehnese from Sumatra who had sought political asylum, human rights groups have accused the Indonesian military of killings and torture in their campaign against Acehnese separatists
 March 28—Authorities in Port Klang, near Kuala Lumpur, deport another 1,100 Indonesian immigrants

MEXICO

March 3—General Jesús Gutiérrez Rebollo, Mexico's former anti-drug chief, is sentenced to more than 13 years in prison for weapons violations and abuse of authority, he still faces the corruption charges that led to his arrest in February 1997.

NIGERIA

March 21—Pope John Paul II arrives in Abuja, where he is greeted by the military head of state, General Sani Abacha; the pope calls on Nigeria's government to guarantee human rights and freedoms, the Vatican later gives the government a list of some 60 names of political prisoners it wants released.

PAKISTAN

March 9—A bomb explodes on a train southwest of Lahore, killing at least 7 people and wounding 35, earlier today a bomb outside a courthouse in the southern province of Sind wounded 13 people.

PARAGUAY

March 10—A military tribunal sentences Lino Oviedo, a retired general and current presidential candidate, to 10 years in prison for attempting a coup in 1996 and for insulting President Juan Carlos Wasmosy.

March 27—The Supreme Court rules that Oviedo may run for president even if he is in jail.

ROMANIA

March 30—Prime Minister Victor Ciorbea resigns; Interior Minister Gavril Dejeu will serve as caretaker prime minister.

RUSSIA

March 23—President Boris Yeltsin dismisses his entire cabinet without explanation.
 March 27—Yeltsin names Sergei Kiriyenko, the fuel and energy minister, prime minister and threatens to dissolve parliament if it rejects the appointment.

RWANDA

March 6—The New York Times reports that, according to a government spokesman, at least 135 people have been killed in 5 days of fighting between Hutu rebels and government forces

SLOVAKIA

March 2—President Michal Kovac steps down as his 5-year term ends, parliament has been unable to agree on a successor

SRI LANKA

March 5—At least 2 bombs explode on a bus at a crowded intersection in Colombo, killing at least 32 people and wounding more than 300; there is no immediate claim of responsibility, but police officials say they suspect the Liberation Tigers of Tamil Eelam, a guerrilla group fighting for an independent Tamil homeland.

SUDAN

March 18—The New York Times reports that for nearly 2 months the government has banned UN hunger relief flights to all but 4 airstrips in the southern Adet region on the grounds that Adet is politically "insecure", rebel groups say banning the flights is a deliberate strategy by the government to kill rebel supporters; the field coordinator in southern Sudan for the UN World Food Program says that in 3 or 4 months, some 500,000 people will not "have the resources to survive" if the government does not allow access to the southern rebel-controlled territories.

SWITZERLAND

March 26—The country's 3 main banks agree for the 1st time to negotiate a global settlement with Holocaust victims; the banks had previously said they would compensate only those victims or descendants who could demonstrate claims to specific World War II-era accounts

TURKEY

March 17—Prime Minister Mesut Yilmaz survives a no-confidence vote in parliament, 266 to 213; the vote was brought by religious conservatives angered by a new ban on the wearing of head scarves by female Muslim university students.
 March 27—At a meeting of the powerful National Security Council in Ankara, military leaders present Yilmaz with a list of steps they say he must take to crack down on Islamic fundamentalism; no Turkish leader has ever refused a recommendation of the council, which is made up of military and civilian leaders

Letters to the Editor

To the editor

Peter Zirnite's "The Militarization of the Drug War in Latin America" (April 1998) comments on the apparent futility of training Latin American military and police personnel at the United States Army School of the Americas (SOA) at Fort Benning, Georgia. He cites as his evidence manuals advocating the use of torture against detainees, which were supposedly used as texts at the school as recently as 1991.

This statement is absolutely false and should not be allowed to stand on the record to color issues already clouded with emotion. Seven independent inspections and investigations have been made concerning the so-called torture manuals and related issues. In November 1997, the Columbus, Georgia, *Ledger-Enquirer* devoted several thousand words to the supposed existence of the "torture manuals" and showed that they were promulgated by the Intelligence Center at Fort Huachuca, Arizona, in the early 1980s, briefly employed by a mobile training team from that doctrinal center, and never integrated into the mandatory curriculum at the SOA. No independent or secret curriculum has ever existed at the SOA, whose mission is to present "off-the-shelf" courses in the Spanish language from approved United States military doctrine centers.

Russell W. Ramsey, Ph.D.
Resident professor of Latin American
affairs at the School of the Americas.

Peter Zirnite replies.

Given the horrific nature of the practices advocated in the training manuals, it is understandable why Professor Ramsey and others would deny reports of their existence

and use at the SOA. I, too, would like to believe that it is "absolutely false" that the United States military promoted physical abuse and execution—or, as one of the seven Spanish-language manuals puts it, "neutralizing" targets—as part of its instruction to Latin American allies. Unfortunately, it is absolutely true.

In September 1996, more than a year before the *Ledger-Enquirer* ran its investigation into the "supposed existence" of the manuals, the Defense Department acknowledged publicly that the manuals "were compiled in the mid-1980s for use in intelligence courses." They were "used for training by Mobile Training Teams in Latin America from 1987 to 1989 and by the School of the Americas from 1989 to 1991" and distributed "to intelligence schools in several Latin American countries." While Professor Ramsey may be correct in stating that the manuals were "never integrated into the mandatory curriculum at the SOA," the Defense Department's "Fact Sheet Concerning Training Manuals Containing Materials Inconsistent With U.S. Policy" makes it clear that they were "distributed to students."

The training manuals are yet another chapter in the history of United States–Latin American military relations in which the truth is stranger, and more shocking, than fiction.

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UNITED KINGDOM

Northern Ireland

March 21—Sinn Féin, the political wing of the guerrilla Irish Republican Army (IRA), announces that it will rejoin multiparty peace talks when they resume in Belfast in 2 days, Sinn Féin was expelled from the talks on February 20 after 2 murders in Belfast in which the IRA was strongly suspected.

UNITED STATES

March 10—A federal immigration judge in Los Angeles orders the deportation of 6 Iraqi men who had previously cooperated with the CIA in failed plots against Iraqi President Saddam Hussein; the men were declared threats to US national security in a secret court ruling that their lawyers have been denied access to, the lawyers say the men face certain persecution and possible execution if returned to Iraq.

March 25—In Entebbe, Uganda, on the 2d leg of an 11-day tour of 6 African countries, President Bill Clinton meets with 6 East African leaders; at the meeting Benjamin Mkapa of Tanzania, Daniel arap Moi of Kenya, Yoweri Museveni of Uganda, Meles Zenawi of Ethiopia, Laurent Kabila of Congo, and Pasteur Bizimungu of Rwanda sign an agreement to pursue democracy, prevent genocide, protect human rights, and expand trade, Clinton, who visited Ghana earlier this week, is

also to visit South Africa, Botswana, Rwanda, and Senegal

YUGOSLAVIA

Serbia

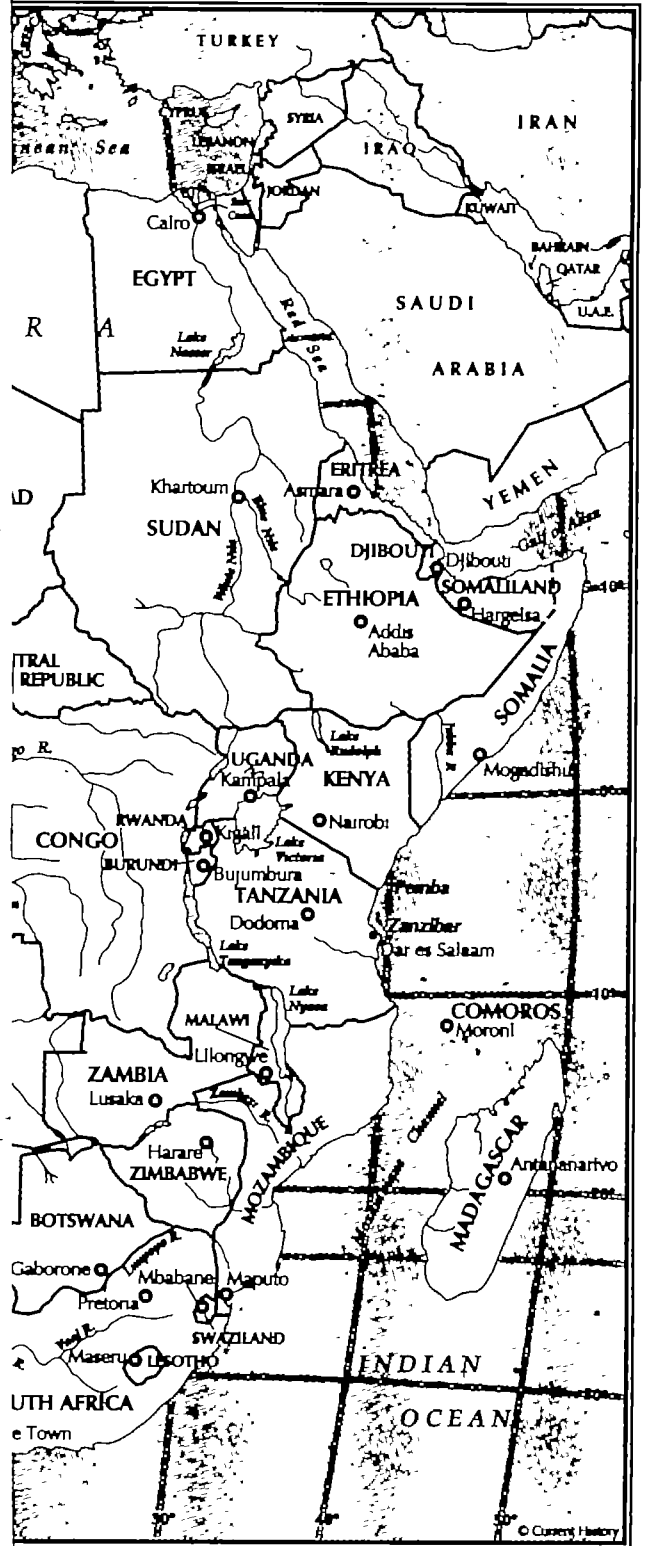
March 2—Serbian police in Pristina, the capital of the southern province of Kosovo, forcibly disperse some 30,000 ethnic Albanians protesting the killing of more than 20 civilians by police and paramilitaries in the past few days, the wave of government-backed killings was touched off by 2 ambushes by the pro-independence Kosovo Liberation Army (KLA) on February 27 that left 4 police officers dead, many of Kosovo's ethnic Albanians, who make up 90% of the province's population, want it to regain autonomy from Serbia, which was revoked in 1989.

March 5—Serbian police and paramilitary units attack KLA guerrillas in the Drenica region with helicopter gunships and armored vehicles, Serbian officials later say 20 Albanians and 2 Serbian police officers were killed in the fighting, which they say started after a KLA attack on a police station left 2 policemen wounded.

March 9—The countries of the so-called contact group on the former Yugoslavia (the US, France, Britain, Russia, Italy, and Germany) agree to impose modest diplomatic and economic sanctions on Yugoslavia for its "unacceptable use of force" against ethnic Albanians in Kosovo.

March 10—The *New York Times* reports that the number of ethnic Albanians known to have been killed in the Serbian assault on Prekaz, a KLA stronghold, and other villages in the Drenica region has risen to 77, with dozens more missing. ■

Correction On page 65 of Arlene Tickner's article, "Colombia: Chronicle of a Crisis Foretold," in the February 1998 issue, it was incorrectly stated that presidential elections were to be held in Colombia in February 1998, the elections are to be held in May.



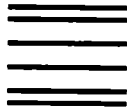
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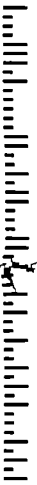
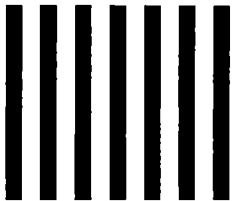
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Russia and Eurasia

Russia concludes its seventh year of postcommunist transition with a democratically elected government in place, a market economy under construction, and a society free to experiment. Or so the optimists would argue. Our October issue finds another Russia in transition: one with a government ruled by men, not laws; a market that prefers barter to cash; and a society more experimented on than experimenting. Topics scheduled to appear include.

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Letters to the Editor

To the editor

The views presented in your narcopolitics issue (April 1998) were, as one might expect, a combination of the insightful and the trite. Phil Williams' suggestion that law enforcement tactics should be tailored to match the network nature of trafficking organizations ("The Nature of Drug-Trafficking Networks") merits consideration. Elizabeth Joyce's analysis of multilateral cooperation in Europe ("New Drugs, New Responses: Lessons from Europe") can inform the efforts of nations in the Western Hemisphere. Some of your authors, however, keep banging the wrong drum.

Mathea Falco ("America's Drug Problem and Its Policy of Denial") apparently cannot accept that the National Drug Control Strategy authored by General Barry McCaffrey is doing what she says it should—focusing on demand reduction. In the past two years, spending on prevention has increased 33 percent. Thirty-five percent of proposed new federal spending in fiscal 1999 is for prevention, while 20 percent is for treatment. She also brandishes cheaper drug prices as an indicator of failed policy. We at the Office of National Drug Control Planning would suggest that a 70 percent reduction in the number of casual cocaine users and a \$30 billion decrease in annual spending on drugs have something to do with the equilibrium market price of illegal drugs in the United States.

Peter Zirnite ("The Militarization of the Drug War in Latin America") evidently has an irrational fear that the United States government wants to unleash Latin America's armies in a no-holds-barred war on drugs. He claims McCaffrey is more adept at obtaining funds for his Latin American military allies than for domestic, demand-related programs. He should get his facts straight. McCaffrey convinced Congress to authorize \$195 million for a youth-oriented anti-drug campaign this year and is asking for \$50 million to place drug coordinators in the nation's middle schools. We are spending more on these two domestic demand reduction programs than the State Department does supporting international cooperation globally.

We at the Office of National Drug Control Policy are committed to reducing illegal drug use and its consequences by 50 percent in the next 10 years. We recognize that accomplishing this goal means halving the number of addicted (now estimated at 4 million) and changing American society's general acceptance of experimental and recreational illegal drug use. We welcome serious criticism of the drug control policies suggested by the administration. We do not, however, believe that faulty analysis like Ms. Falco's contributes much to the debate.

James R. McDonough

Director, strategic planning

Office of National Drug Control Policy

Executive Office of the President, Washington, D.C.

Mathea Falco replies:

Mr. McDonough misunderstands the central point of my article, which is that the United States should significantly increase its efforts to reduce the demand for drugs through prevention, education, treatment, and community anti-drug initiatives, including law enforcement at the street level. Only one-third of the current \$16 billion federal drug control budget goes for demand reduction. Although the administration's National Drug Control Strategy articulates the need for much greater emphasis on prevention and treatment, spending priorities remain unchanged. In 1998, law enforcement, interdiction, and international supply control programs still account for two-thirds of the total budget—the same proportion as in 1992.

Mr. McDonough notes correctly that the administration has asked Congress for increases in prevention and treatment funding during the past two years (although these increases have generally been relatively small in actual dollar terms). In fact, he understates the administration's case. From its first year in office, the Clinton administration has requested increases in demand reduction spending. For example, in fiscal 1996, the administration requested \$1.97 billion for prevention, \$300 million more than the \$1.6 billion spent the year before. Congress, however, approved only \$1.4 billion. In fiscal 1997, the administration lowered its request to \$1.6 billion, and Congress approved slightly more than that. In fiscal 1998, the administration won congressional approval for a \$195 million anti-drug advertising campaign, which pushed total prevention funding to \$1.9 billion. At the same time, illicit drug use among young teens has more than doubled since 1991, and if current trends continue, by 2002 teen drug use will reach the peak levels of the late 1970s. Nonetheless, prevention still remains the administration's lowest funding priority, accounting for just 12 percent of the federal drug budget. In 1998, we are spending as much for drug-related incarceration as for prevention.

Mr. McDonough's complaint that my article "brandishes cheaper drug prices as an indicator of failed policy" ignores the primary purpose of United States international drug control policy. For the past 25 years, the overriding goal of United States-funded foreign interdiction, enforcement, and crop eradication efforts has been to reduce the supply and increase the cost of drugs

(continued on p. 302)

COMMENTS ON THIS MONTH'S ISSUE?

Current History welcomes brief letters from our readers. Letters should include the writer's name, address, and daytime telephone number. Those selected for publication are subject to editing for space and style. Fax letters to (215) 482-9197, or send by email to chistory@aol.com or by regular mail to Letters to the Editor, Current History, 4225 Main St., Philadelphia, PA, 19127.

CURRENT HISTORY

September 1998

How to deal with China? Perhaps no other foreign policy issue has been such a nasty thorn in Bill Clinton's side. From the "delinking" of trade and human rights to the uproar over campaign money and satellite technology, seemingly everything the administration does or says about China sparks controversy. Historian Nancy Bernkopf Tucker looks back to find an administration slowly muddling toward some balance in its approach to China.

A Precarious Balance: Clinton and China

NANCY BERNKOPF TUCKER

The Clinton administration's difficulties with China were largely foreshadowed during the 1992 presidential campaign. Bill Clinton and his advisers managed to carry the election with the compelling slogan, "It's the economy, stupid." These words not only captured the imagination of the American people but focused attention on basic policies and institutions whose malfunctioning threatened to undermine the country's progress.

The slogan also reflected large truths about Clinton and his entourage: that they concentrated almost entirely on domestic affairs and gave virtually no time or attention to the foreign policy arena; that when forced to think about foreign developments, they invariably viewed them through the prism of economic advantage; and that they preferred to deal with one set of issues at a time, even as a complex world demanded more variegated policies.

Given the economic impulse that dominated the campaign and the presidency, the stand that Clinton took on China was foreordained both to fail and to help make China policy a chronic problem that would burden and embarrass the Clinton White House. The Arkansas Democrat volubly attacked President George Bush in 1992 for "coddling" Chinese dictators, hoping to indict the incumbent for callous disregard of the Chinese people. But the strategy of pursuing a human rights policy that would hold China to account for the massacre at

Tiananmen in 1989 as well as for its standards on religion, abortion, and freedom of speech has been, from the start, in basic contradiction with the desire to exploit the Chinese market. Once in the White House, Clinton bowed to commercial pressures and Chinese intransigence, adopting a policy that looked strikingly like the Bush approach he had disparaged. Not surprisingly, outraged Republicans and desperate human rights activists joined in denouncing what they saw as the president's hypocrisy.

It is arguable, of course, that the broad outlines of United States-China relations would not have been much different regardless of who filled the presidency between 1993 and 2000. Although it is not yet a great power, China's growing weight in international affairs dictates a degree of attention and respect that the Chinese have long sought and that no American government can deny them. Clinton's course may have been erratic but ultimately realistic. Even President Ronald Reagan, a staunch cold warrior and partisan of the Kuomintang (Nationalist Party) in Taiwan, came to accept the necessity of good relations with the People's Republic. Republican or Democrat, a president who neglects China puts the nation at risk.

Yet Bill Clinton paid little attention to China in his first administration and, accordingly, management of the relationship was left to competing interests in the administration. No clear China policy emerged. Symbolic of the problem was the term "engagement," which emerged to encapsulate the Clinton approach to China. Arguably a reasonable, far-sighted, and appropriate process, engagement did not by itself set out policy goals, leaving officials uncertain about what they were to achieve. Only after a major crisis in the Taiwan Strait in 1996 did the White House recognize that leadership—sus-

NANCY BERNKOPF TUCKER is a professor of history at Georgetown University and the Georgetown School of Foreign Service. Her books include *Patterns in the Dust: Chinese-American Relations and the Recognition Controversy* (New York: Columbia University Press, 1983) and *Taiwan, Hong Kong, and the United States: Uncertain Friendships* (New York: Macmillan/Twayne, 1994), which won a 1996 Bernath Prize from the Society for Historians of American Foreign Relations.

tained leadership—was essential if disaster was to be avoided. The truth of that proposition can be seen in the four main areas of contention between the United States and China during the Clinton years: human rights, trade, national security, and Taiwan.

CAPITULATING ON HUMAN RIGHTS

When candidate Clinton attacked President Bush during the 1992 campaign for being soft on China, the charge stemmed from Bush's decision not to allow the Tiananmen crisis to disrupt relations completely. Hoping to reassure China in the face of congressionally mandated retaliation against the "butchers of Beijing," Bush secretly dispatched top-level officials to meet with Chinese leaders, even though newly instituted sanctions barred such trips. Clinton asserted that he would approach China differently and hold its leaders to higher standards.

Once in the White House, Clinton turned his attention decisively to domestic problems, leaving his foreign policy team, especially Anthony Lake, the national security adviser, to articulate a vision of "democratic enlargement" that made promotion of human rights still more important. Lake and others apparently accepted the ahistorical idea that democracies not only coexist peacefully, but also treat their own citizens properly and carry on trading relations without unreasonable protectionism. Under this view, if the administration pressed its human rights agenda on Beijing, China's transition to democracy would accelerate and it would become more tolerant of diversity at home and more cooperative abroad.

But in the spring of 1993, in the first major test of the administration's human rights principles—the annual fight in Congress over most favored nation (MFN) trade status for China—Clinton flinched. Because China remains a communist country, its access to normal American tariff rates, granted to all but a handful of nations, has to be reviewed and renewed every year by the president and Congress. American business demanded the granting of MFN lest huge trade and investment opportunities in China be lost; the human rights community, in the wake of Tiananmen, insisted that economic coercion alone could extract improvements in China's abusive internal policies. Clinton, the great compromiser, loath to abandon his human rights stand but intensely aware of economic imper-

atives, opted to continue MFN but declare that further renewal in June 1994 would depend on changes in China's human rights record during the intervening months.

Conditioning MFN, as his executive order did, on "overall, significant progress" in China made American policy absolutely dependent on Beijing, putting members of the administration in the humiliating position of cajoling Chinese leaders to save Clinton's reputation. Administration officials had supposed, not unreasonably, that the Chinese had much to lose if trade privileges were severely curtailed and would, therefore, be responsive. But between June 1993 and June 1994, President Jiang Zemin and Prime Minister Li Peng, who viewed calls to respect human rights as interference in

China's internal affairs, did little, making it impossible for Clinton to claim that progress in human rights had been significant. Not only did China's leaders resist change, but in their defense of Chinese sovereignty they also spoiled American Secretary of State Warren Christopher's first visit to Beijing in February 1994. On the eve of Christopher's arrival, Assistant Secretary for Human Rights John Shattuck met with the internationally known dissident Wei Jingsheng, who had recently been released from prison. The response was swift: China's leaders detained several

political activists and greeted Christopher with rude lectures on human rights abuses in the United States. The incident deeply angered and embarrassed Christopher, but the president neither took public offense nor did anything to risk losing access to China's booming economy. He chose instead to "delink" MFN from human rights.

Although his credibility at home and in China suffered from what appeared to be weakness and vacillation, Clinton's choice on MFN was the right one. The original decision to use MFN as a tool to give the Chinese people greater civic and political freedoms had been misguided. United States-China economic relations were too important to jeopardize; they benefited Americans by offering low-priced imports to the public and lucrative opportunities for big business in trade, manufacturing, and investment. At the same time, they nurtured the most enterprising and capitalistic elements among the Chinese, precisely those people whose involvement in the free market best served United States interests. Withdrawal of MFN

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also promised to start a trade war that would hurt many innocents and have no assurance of doing anything to support dissent inside China. Given his concern about the domestic economy and the opportunities for business overseas, Clinton probably would not have carried out his threats even had there been less intense pressure on the White House. Clinton's capitulation, however, signaled to the Chinese that he could be pushed around, that they had strong allies among American business executives, that human rights abuses would not determine the boundaries of Sino-American relations, and that, in the end, their intractability would have no consequences.

As for the Clinton administration's human rights agenda, after the collapse on linkage little leverage remained and progress proved meager. The administration managed to save human rights activist Harry Wu from imprisonment when he entered China illegally in 1995 after having revealed embarrassing details about prison labor and sales of human organs in China. Beijing deported him in part to secure First Lady Hillary Rodham Clinton's attendance at the UN World Conference on Women (a meeting that earned Beijing wide criticism for exiling the participants to a muddy suburban site, denying visas to controversial delegates, and censoring reports of the proceedings).

Despite the dismay generated by such policies, Washington repeatedly failed to rally adequate international support for passage of a resolution critical of China by the UN Commission on Human Rights. And, more recently, after securing the release from prison of Wei Jingsheng and Tiananmen Square protester Wang Dan to the United States, American officials watched helplessly as other dissidents were detained on the eve of Clinton's arrival in China for the June 1998 summit.

The most hopeful human rights advances in China have stemmed from changes in the perceptions and practices of the Chinese people themselves. The leadership, while still emphasizing absolute control, began to discover that a responsive citizenry participating in village-level elections made governance easier and reduced corruption. It found that instituting "rule by law" if not the "rule of law" improved the atmosphere for foreign investment and the development of the domestic economy. Although civil society grew slowly, it did begin to have some influence, especially in areas like the environment.

The Clinton administration's dilemma regarding the relative importance of human rights and eco-

nomic exchange, however, did not diminish. On the eve of his departure for China in June 1998, the president told members of the press, "I think on balance the evidence is that greater economic prosperity and greater openness leads to . . . greater freedom and to a higher quality of life across the board." Yet just days earlier he had emphasized to the American people that "I have told President Jiang that when it comes to human rights and religious freedom, China remains on the wrong side of history. Unlike some, I do not believe increased commercial dealings alone will inevitably lead to greater openness and freedom. We must work to speed history's course."

TO WHOSE COMPARATIVE ADVANTAGE?

In the contest between human rights advocacy and the domestic economic benefits of trade, the latter have generally carried more weight with the administration. Clinton appointed Warren Christopher his secretary of state, a competent administrator and diplomat who lacked any special relationship with the president or any spark of charisma. In past administrations, like that of Richard Nixon, when the president selected a weak figure at State, he did so to keep control of foreign affairs in the Oval Office. In this case, Clinton did not seek to retain the portfolio; nor did he empower his national security adviser exclusively. He also passed foreign policy-making authority to the Department of Commerce, where Ronald Brown served as secretary. Brown, former head of the Democratic National Committee, made politics his priority and sought to bind businesspeople to the administration and foreign policy to business. In his campaign to widen opportunities for American trade, manufacturing, and finance overseas, Brown pinpointed China as a promising new frontier. On a high-profile trip to China in August 1994, shortly after Clinton's capitulation on human rights, Brown barely mentioned the subject as his large entourage of 24 corporate executives signed contracts worth \$5 billion.

Christopher meanwhile lavished his attention on the Middle East, traveling more than 15 times to Syria and only twice to China, making it clear that the State Department would not be a strong voice on Chinese affairs. At the Defense Department, Secretary Les Aspin similarly had priorities other than Asia; China would not loom large until he was succeeded by William Perry. As a result, China policy fragmented, with different agendas at State, Defense, Commerce, and the National Security Council. This produced increasing confusion and left the field

open for Congress and interest groups to arrogate to themselves growing roles in decision making.

The great emphasis the United States has placed on economic ties with China grew out of the decline of the strategic rationale for Sino-American cooperation that followed the end of the cold war, and out of the age-old faith that China's vast population would make enterprising Americans very rich. The nineteenth-century "myth of the China market" proved to have strong late-twentieth-century echoes, and, for the first time, became less illusory as China graduated into the ranks of the top 15 overseas markets for the United States, buying some \$13 billion annually in American goods by 1997 and welcoming \$17 billion in investments between 1979 and 1997. But China's export-led growth strategy meant that its ability to penetrate American markets far exceeded its own import levels, and here frictions developed.

American businesses complained of Chinese trade barriers ranging from formal hurdles such as high tariff rates to informal obstacles involving unpublished regulations and piracy of intellectual property—particularly movies, CD recordings, and computer software—totaling some \$3 billion annually. The administration worked assiduously to eliminate these points of contention, bargaining hard, for instance, on the issue of China's accession to the World Trade Organization (WTO) when China sought to be a founding member.

Although China had more to lose by alienating the American business community than did the United States in a trade war, it opened markets and altered practices grudgingly, if at all. Thus, in early 1995, Clinton threatened penalties if China refused to sign an intellectual property rights agreement that would close illegal CD factories and permit American products to be sold in China. To human rights campaigners, the president's willingness to follow coercive policies to placate the entertainment industry when he would not do so to rescue Tibetan monks or Catholic priests from prison seemed unconscionable. In the end, Clinton secured his accord, but he was unable to gain enforcement, partly because of the role of the People's Liberation Army (PLA) in operating illicit manufacturing plants and partly because other factories simply moved across the border to sanctuary in Portuguese Macau.

Of course, military interference in Sino-American economic relations went well beyond intellectual property rights infringement. Clinton had to parry PLA efforts to sell small arms to Americans and to market goods in the United States produced by

prison labor. Attempts to isolate the offending companies and sanction just the PLA never proved workable, because of the complex interweaving of commercial and military enterprises. More troubling still were reports that the Chinese government had used American products and technical support to enhance its military prowess.

THE STRATEGIC EQUATION

With the competition between trade and human rights the focus in the China policy arena, issues of national security receded. Although experts have argued over the actual level of China's military expenditures and the pace of its military modernization, all agree that its forces are far weaker than those of the United States and most would contend that the gap is widening. Accordingly, to the degree that the new president saw a Chinese role in United States national security, it would have been as a contributor to economic growth and stabilization through trade and investment, not as a security threat. Yet the Chinese military has become a significant challenge in several ways: it has criticized American defense policies, acted as a purveyor of weaponry, possibly pilfered advanced technology, and even contributed to the Democratic National Committee.

Ironically, early in the first term—at the same time that Clinton's China policy began to be criticized as ineffective and irresolute—Beijing concluded that the United States had mounted a coordinated effort to contain China by keeping it weak and divided. As evidence of a containment strategy, Beijing pointed to the sale of arms to Taiwan (especially the F-16 jets authorized by George Bush in 1992), renegotiation during 1996 and 1997 of the United States–Japan defense guidelines (perceived both as targeting China and as encompassing Taiwan), strategic dialogue between the United States and India (a rival with which China fought a war in the 1960s), and normalization of relations with Vietnam (a nation that humiliated the United States as recently as the 1970s, making reconciliation understandable only as an anti-China move). Even the Clinton administration's characterization of its policy as engagement implied, to Chinese ears, potential military confrontation. Regardless of how often American officials denied having any desire to isolate the Chinese, and acknowledged the impossibility of doing so in any case, Beijing remained irreconcilable.

Chinese leaders were themselves busy nurturing an outbreak of anti-Americanism to enhance their

growing emphasis on national pride. As communism disappeared as an effective tool for rallying support, Communist Party leaders turned to nationalism, often of a belligerent tenor, to increase their popularity. Thus China accused the United States of being responsible for Beijing's failure to be named the host of the 2000 Olympics, of mistreating Chinese athletes at the 1996 Olympic games in Atlanta, and, more recently, of using the Asian financial crisis to extend its hegemony over the region. On occasion it hinted broadly that the time had come for the United States to withdraw the 100,000 troops it has in Asia. In 1996 one of the best-selling books in the country was *The China that Can Say No*, which railed against American values and institutions; a hugely popular television soap opera in the capital, *Foreign Babes in Beijing*, starred an American woman who spent her time seducing innocent Chinese men.

Whether the Chinese genuinely believed that Americans wanted to contain China, or saw this as a good way to manipulate the United States into proving the contrary, remains unclear. It is certainly true that, although an authentic sense of humiliation resulting from a century of imperialist depredations exists among many Chinese, Beijing has used its victimization adeptly in international diplomacy, demanding restitution for its grievances and putting other countries on the defensive. The Clinton administration's talk of China as a strategic partner, a designation appropriate to Japan but hardly to China, seemed to be an effort to allay Chinese fears more than to describe any near-term prospect for close cooperation between Washington and Beijing. That China has had part of its meager nuclear arsenal aimed at cities in the United States attests to the hollowness of any imagined partnership, a hollowness that detargeting alone will not remedy.

Among the factors that make intimacy unlikely have been the disputes between the two countries over China's role as an agent of arms proliferation. American intelligence sources contend that China sold missile, nuclear, and chemical technology to Pakistan and Iran before and after its 1992 pledges to adhere, informally, to the International Missile Technology Control Regime (MTCR) and, officially, to the nuclear Non-Proliferation Treaty. Its assistance to Pakistan has been egregious and may well

have been a prime factor in India's decision to carry out nuclear weapons tests in May, as well as in Pakistan's ability to respond in kind immediately.

Beijing has largely denied American charges and has insisted that the United States is a far more dangerous proliferator, noting that it remains the world's largest weapons exporter, with 44 percent of global sales in 1997. Moreover, China demands that the issue of ending United States arms sales to Taiwan be linked to any agreement on the cessation of controversial Chinese weapons transfers. Meanwhile, the Clinton administration has avoided mandatory sanctions under the MTCR, despite congressional complaint, by denying that there is sufficient evidence of violations. Sanctions, of course, would take a heavy toll on American business interests.

*Policy has grown more
"multifaceted," as
Secretary of State
Madeleine Albright
likes to say, yet
commercial imperatives
have continued to
supersede other critical
concerns.*

China also may be guilty of illegally acquiring advanced American military technology, raising questions about its integrity and reliability as well as the good judgment of the Clinton White House. The cases that have arisen hinge on launches of American satellites on Chinese rockets. Because of the tremendous expansion of commercial satellite usage, businesses in the United States have sought additional launch capacity and have found China a willing

and, at half the price of an American Atlas rocket, inexpensive supplier. Clinton, following Reagan- and Bush-era policies, has given almost routine approval to such partnerships. In March 1996 the administration went further and transferred licensing authority for civilian satellite exports from the State Department to the Commerce Department.

As Sino-American cooperation increased, critics contend, security suffered. Although the United States National Security Agency has asserted that it is unlikely, Chinese scientists may have removed a highly classified satellite component from the scene of a missile crash. Irresponsible American engineers also may have transferred sensitive technical data that the Chinese subsequently used to upgrade their missile guidance systems. And the president may have undermined a Justice Department investigation into some of these charges by approving a major new satellite sale. What seems to have governed administration choices was the \$1.7 billion in investment and the 16,000 American jobs hanging on continued use of Chinese rockets. Another possible motivation for Clinton, according to parti-

san attacks by congressional Republicans, was large campaign contributions given to the Democratic National Committee by the president of one of the most active satellite companies.

American corporations have also provided China some dual-use technology, with troubling results. Items such as supercomputers and airplane production equipment have been diverted to military facilities, producing widespread concern that civilian commerce could significantly enhance Chinese military capabilities. Administration officials have argued that China could easily turn to European sources if the United States refused to supply these technologies, resulting in serious financial losses for American companies. This had been the case in 1993, when Clinton barred satellite sales in retaliation for China's transfer of M-11 missiles to Pakistan; \$1 billion in transactions went to Europe.

The central task is once again to produce a reasonable balance between trade and security. More than other administrations, the Clinton White House has appeared, at least in the past, to give the economic aspects of international relations too much weight, allowing the wrong people to make decisions about sensitive issues. That these choices have actually jeopardized the nation's safety seems unlikely, but that such doubts have been raised has undermined Clinton's command of—and legacy in—the foreign policy arena.

THE TAIWAN CRISIS

Of all the disputes between the United States and China, the most incendiary is the Taiwan issue. Although the United States acknowledged in the 1972 Shanghai Communiqué the Chinese position that there is only one China and that Taiwan is a province of China, times have changed. Taiwan today is not the same as it was in the early 1970s, when democratic reforms, widespread prosperity, and generational succession had not yet taken hold. As Taiwan has matured and Taiwanese have increasingly replaced mainlanders in the corridors of power, the island's government has challenged its political isolation and has sought a larger international voice; it has increased overseas travel by its officials and made an effort to join international organizations like the UN and the WTO. Thus in 1993 the Clinton administration announced, as one of its first foreign affairs tasks, a reassessment of Taiwan policy.

The end result of this policy review proved to be meager and the many delays in completing the study made the small advances appear even less important. The most courageous item seemed to be

reconfirmation of a Bush administration decision to allow cabinet-level officials to visit Taiwan so long as they were not heavy hitters like the secretaries of state or defense. For Taiwan's President Lee Teng-hui, caught in a domestic struggle with the increasingly popular Democratic Progressive Party (DPP), which sought to oust the ruling Kuomintang from its decades of monopoly power, this was not enough. To counter the pro-independence DPP, Lee had to demonstrate his ability to broaden Taiwan's international ties and economic clout and exert influence in the United States.

So Lee pushed harder, and received much more, although the price proved to be high. He persuaded the United States to grant him a stopover in Hawaii during a trip to Central America, becoming the first Taiwanese president ever to set foot in the United States. But when officials limited him to a brief reception at the airport rather than a stay at a hotel in Honolulu, he refused to get off his airplane, turning the alleged insult into a campaign for a real trip to the United States. Lee hired a major public relations firm and recruited ideological allies to lobby Congress until they were able to produce an overwhelming vote urging Clinton to grant Lee a visa to attend a graduation ceremony at his alma mater, Cornell University. The spring 1995 visit enraged the Chinese, who saw the decision to allow it as an endorsement of independence for Taiwan and as evidence of American perfidy, since Secretary of State Warren Christopher had assured them that no trip would be permitted. In fact, although the administration had not been deceitful, it had been sloppy and naive in not making clear to the Chinese that it would be unable to hold the line against Lee's trip or prevent him from making provocative remarks.

In response, Beijing mounted an escalating campaign of intimidation. In July 1995 China held military exercises in the Taiwan Strait. It withdrew its ambassador from Washington and refused to accept the credentials of the newly appointed American ambassador. It also broke off the promising cross-strait dialogue that had begun to resolve practical problems inherent in the difficult relations between China and Taiwan. After a brief lull in the autumn, it resumed military exercises in the spring of 1996, just before Taiwan's presidential elections—the first direct presidential elections in Chinese history. The objective of defeating Lee or reducing his vote tally was not achieved, even though Beijing fired missiles just off Taiwan's coast.

To this point American involvement had been rhetorical and designed to de-escalate mounting

tensions. But Beijing's blatant bracketing of the island with its missile tests led Clinton to dispatch two aircraft carrier battle groups to the waters around Taiwan. Although few imagined that war would follow, the crisis had escalated so quickly and entailed such risk of accidental mayhem that all sides pulled back. Chronically weak and malleable when it came to China, in this instance Clinton adeptly changed course to address the misperceptions and errors that had pushed Sino-American relations to their nadir in the years since normalization. Indeed, Beijing and Washington reappraised the future and decided to work much harder to improve the atmosphere, if not to solve the problems, between them. The Taiwan Strait crisis proved a watershed, redirecting the attention of the Clinton administration toward China and finally focusing the president's mind on the need to understand the Chinese better.

CLINTON'S BOTTOM LINE

It would be difficult not to conclude that Clinton's China policy has been flawed. Many wise and capable people have served in the trenches, but there has been minimal leadership from the top. Policy has grown more "multifaceted," as Secretary of State Madeleine Albright likes to say, yet commercial imperatives have continued to supersede other critical concerns. Moreover, policy toward Taiwan has suffered from neglect, mismanagement, and ignorance, as evidenced by Clinton's June remarks in Shanghai. There he became the first president to reject publicly Taiwan's independence and its membership in international organizations requiring statehood, as well as to embrace firmly a one China policy. He did this to gratify Beijing, disregarding Taipei's vulnerable position in cross-strait negotiations and a democracy's right to self-determination.

This is not to say that there have been no constructive advances in relations between Washington and Beijing. Two summit conferences significantly improved the atmospherics of United States-China relations, so long depressed by the bleak events of the 1989 Tiananmen crisis. American persuasion played a role in China's decision to sign a series of international agreements, including the Chemical Weapons Convention in 1994 and the Comprehensive Test Ban Treaty in 1996. China has lowered its tariff barriers, released some political prisoners, and handled the retrocession of Hong Kong with an unexpectedly cautious and reasonable sovereign authority. Amid the Asian financial crisis, its determination to preserve the value of its

currency has earned it universal praise, particularly when compared with the less constructive, indecisive policies of the Japanese. The United States and China have cooperated on the Korean Peninsula and have carried on military exchanges that contribute to mutual understanding and, therefore, peace in the region.

Of course, the Clinton administration's shortcomings on China cannot be viewed in isolation. Even a fully coordinated, purposeful, and astutely commanded team would have had to confront a China that had little desire to accommodate the United States. If Chinese leaders imagined that they could solve outstanding problems by attempting to influence American politics with campaign donations in the 1996 presidential race (as some intelligence intercepts suggest), they made a monumental error. It is true that the Chinese are preoccupied with stabilizing domestic politics and reconciling competing leadership factions, as well as reforming bankrupt state-owned enterprises and a fragile banking system. Nevertheless, they must be more responsive and responsible in their policies toward the United States. Improving atmospherics alone will not suffice. Despite the differences in values, institutions, and national interests, there will have to be substantive progress in the areas of human rights, trade, national security, and Taiwan. The best hope for such advances will come from the evolution of the Chinese political system and the growth of democratic practices.

Meanwhile, although Bill Clinton seems to be paying more attention to China since the 1996 missile crisis and to have imposed some discipline on his fractured foreign policy team, he is most likely to continue emphasizing an economic agenda in relations with China. As he noted to President Jiang Zemin during his June visit, "If you have a lot of personal freedom, some people may abuse it. But if you are so afraid of personal freedom. . . that you limit people's freedom too much, then you pay. . . an even greater price in a world where the whole economy is based on ideas and information and exchange and debate." For Clinton, it is always the economy that gives direction and delimits the boundaries of today's action and tomorrow's accomplishments. It is his vehicle for addressing human rights, national security, and the whole host of other issues that need to be part of the constructive dialogue between Washington and Beijing. It has not always been a firm foundation to date. Perhaps a more engaged Bill Clinton can make it a more effective instrument in the future. ■

Even after Deng Xiaoping's death last year, few predicted that Chinese President Jiang Zemin would be able to escape from the longtime leader's shadow. But in reviewing developments at the top of Chinese politics, Joseph Fewsmith concludes that "more than outside observers had anticipated, Jiang has demonstrated political strength and flexibility, and perhaps even vision."

Jiang Zemin Takes Command

JOSEPH FEWSMITH

As Bill Clinton prepared for his historic trip to China this June—the first by an American president in nearly a decade—critics of the president and his China policy raised the rhetorical ante to a new level. Fueled by accusations that illegal campaign contributions had influenced administration policy on satellite launches, and outraged that the president would be received on Tiananmen Square (where other government leaders have routinely been received), they accused the administration of compromising United States national security and of “kowtowing” to China on human rights. Over 150 members of Congress signed a letter urging the president to postpone his trip, and the House of Representatives overwhelmingly passed a resolution that called on him not to go to Tiananmen Square. Meanwhile, some 75 China-related bills, most imposing sanctions, were under discussion in various congressional committees.

Behind the rhetoric of the president's critics and supporters raged an ongoing debate over the question, “Whither China?” Since the Chinese government's crackdown on demonstrators in and around Tiananmen Square in June 1989, a fundamental division has opened between those who believe that China can be persuaded, over time, to adopt more moderate policies at home and abroad and those who believe that China is emerging as a latter-day fascist state that threatens the economic and security interests of Asia, the United States, and indeed the world. Few have articulated this difference in perception as sharply as Representative Chris Smith (R-NJ), who wrote in the February 28, 1997, issue

of the conservative *Weekly Standard* that the “fundamental basis of the disagreement” on how to deal with Beijing is that some “think the men who rule China are more like businessmen, and others think they are more like Nazis.”

Lurking behind this breathtaking reductionism is another argument about the prospects for China's democratization. The terms of this argument have largely been defined in relation to dissidents who have left China since Tiananmen. Early on, the Clinton administration's China policy appeared premised on the belief that such people might become the future leaders of China and that the administration should therefore position itself on the “right side of history.” It was also widely believed that an early democratic transition was possible and that, without such a transition, China would become a dangerous adversary. It is just such Manichaean reasoning that lies behind comments such as Representative Smith's.

Framing the debate over China in this manner has done a disservice, both to any realistic understanding of what is happening inside China (which has seemed entirely peripheral to the concerns of many) and to the task of forming a consistent policy toward the country. The China of 1998 is not the China of 1989. Although tolerance of political dissent remains extremely limited, there have been important changes that should not be ignored. The economy is far more market oriented and open to the outside world, the political leadership has changed considerably, and the intellectual and political atmosphere is far different from that of just a few years ago.

Although China continues to present a mixed picture of good and bad to the outside world, the overall trend is clearly in the right direction. Critics have focused too narrowly on the absence of a

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democratic transition and not enough on the possibilities for sustainable democratic governance. If China is to have a democratic government in the future, it needs a reasonably efficient bureaucracy, a system of law, an economy that is more independent of the government, and—most of all—a political culture in which all issues are not seen in zero-sum terms. The changes under way in China are supportive of such trends.

IN DENG'S END, A BEGINNING

To understand the present political dynamic in China, one must go back to the death of Deng Xiaoping in February 1997. The passing of the "paramount" leader had long been anticipated, and it occurred with such orchestrated smoothness that its impact has been obscured.

Jiang Zemin, elevated by Deng in 1989 to be general secretary of the Communist Party, had been in his position for nearly eight years and had increasingly assumed the substance as well as the appearance of power. Nevertheless, Deng's passing, combined with the scheduled convening of the fifteenth party congress in the fall, gave Jiang his first opportunity to step out from under the shadow of Deng. Stability and continuity seemed to be the order of the day, but in his eulogy at Deng's funeral Jiang hinted that he had something more than mere continuity in mind. Jiang quoted Deng as saying when he returned to power in the late 1970s that there are two possible attitudes: "One is to act as a bureaucrat, the other is to work."

It seemed a risky quote for Jiang to cite, given his reputation for caution. In retrospect, it appears that Jiang was using Deng to make a personal declaration, namely that he was determined to "work" too. Everything since then has confirmed that Jiang, aware that he is likely to serve only a single five-year term as president in the post-Deng era, is conscious of his place in history and wants to leave his mark.

Jiang's intimation of important changes to come was perhaps as much a reflection of the dilemmas facing the party as it was of personal ambition. As Deng had entered his final decline, the party had fought vigorously over his legacy. How would the program of reform and opening up that Deng had pioneered be continued or amended? This was not an easy question. By the late 1990s, it was possible for party conservatives to argue—and they did so vigorously—that reform and opening up were threatening the party's control and even China's sovereignty.

For years, these conservatives had argued that President Mikhail Gorbachev's reforms had destroyed the Soviet Union. Deng's reforms, they believed, were leading China in the same direction, albeit more slowly. The decline of state-owned enterprises, the rapid growth of the private economy, the massive importation of foreign capital and management, the enervation of the party, and the reemergence of "bourgeois liberalism" (ideas that disagree with more orthodox readings of Marxism-Leninism) were repeatedly cited as threats to Chinese socialism. Although raised mainly by older conservatives ("leftists" in Chinese political jargon), such concerns do have a substantial social foundation. Managers of state-owned enterprises prefer their cozy relationships with the government bureaucracy, while workers in state-owned enterprises fear losing their jobs. Local leaders want to protect their local economy, and bureaucrats charged with maintaining social order can hardly welcome socially wrenching changes.

Conservatives gave voice to these concerns in a series of "10,000-character manifestos"—anonymously written critiques of reform—that were circulated in party circles between the spring of 1995 and the spring of 1997. These manifestos posed a serious dilemma for the party leadership. Unanswered, they would exert an influence on party policy; rebutting them risked opening up dangerous rifts in the party.

Arrayed against vested interests and the concerns of party conservatives, however, were stark economic facts and ultimately a persuasive political logic. China's state-owned enterprises had become a serious drag on the economy and increasingly posed a threat to the banking system as loans went unpaid. Moreover, the growth of township and village enterprises, the engine that had driven so much of China's economic development in recent years, had slowed, leading to concerns about their viability as a form of collective ownership as well as about where the roughly 14 million workers entering the workforce annually were supposed to find jobs. Apparently the answer is to be found in China's private sector, which has been growing rapidly. But both the idea of reforming state-owned enterprises and the financial sector and the recognition of the expanding role of the private sector present substantial challenges to Chinese ideas about socialism.

In short, China had reached a crossroads, and it was not long before Jiang was forced to choose. In March 1997, the draft of Jiang's report to the fif-

teenth party congress was circulated among officials for comment, and it met with a barrage of criticism from the left. Jiang either had to water down his proposals extensively or break with the left, something he had refrained from doing in the years since his arrival in Beijing. Indeed, Jiang had drawn much support from the left wing of the party in his early years. As late as 1996, Jiang had reached out to the left with the famous (or infamous) statement in a party resolution that building "spiritual civilization would not be sacrificed to material civilization."

In late May 1997, with Deng dead and the need to launch an identifiable "Jiang Zemin era," Jiang went to the Central Party School to give the most important political speech of his career. In a thinly veiled jab at the left, Jiang declared that "there is no way out if we study Marxism in isolation and separate and set it against vivid development in real life." In the unpublicized portion of the speech, Jiang went further, explicitly criticizing the left and laying out his rationale for reform of the ownership structure. Deng had raised the slogan "guard against the right, but guard primarily against the left" in his 1992 trip to southern China in support of the reform effort, but it had been largely dropped from the official media following the fourteenth party congress later that year. Now Jiang was reviving it and identifying himself with Deng's reforms. For a leader often criticized as bland, cautious, and technocratic, Jiang was beginning to reveal a boldness previously visible only in his deft maneuvers against political enemies.

REORGANIZING THE PARTY. . .

Although Jiang had previewed some of his major themes in his May speech to the Central Party School, it was not until the fifteenth party congress convened in Beijing in September that the full scope of Jiang's program and his personnel arrangements for carrying it out were unveiled. One of the most interesting aspects of Jiang's report to the congress was that even as he touted Deng's reputation and legacy, he hinted that he himself would push that legacy forward. Jiang cited Deng's 1978 battle with party Chairman Hua Guofeng's "two whatevers" ("whatever decisions Chairman Mao made, we resolutely support; whatever instructions Chairman Mao made, we will steadfastly abide by") as a period of "emancipating the mind"; he said Deng's 1992 trip to the south was a second such period. Intimating that he would continue this process, Jiang called for an "emancipation of the mind in the new period." Conservative Prime Minister Li Peng,

of all people, made this implication clear when he told a group of delegates that the present was a third period of "emancipating the mind." This theme would be picked up and expanded in the months that followed during the limited political opening that has become known as the "Beijing Spring."

The central theme of Jiang's report, however, was his argument that China is in the "primary stage of socialism," which was originally expounded at the thirteenth party congress in 1987 but quietly dropped after 1989. Jiang used this thesis to endorse the joint-stock system as a way to reform state-owned enterprises. "The joint-stock system," Jiang declared, "can be used both under capitalism and socialism." At the same time, Jiang declared that large and medium-sized state-owned enterprises would be reorganized into "standard corporations" with "clear ownership" that would be genuinely independent of government control. Jiang also called for the development of diverse forms of ownership, a formulation that would permit the continued rapid development of the private economy. Together these reforms will allow a massive restructuring of the Chinese economy in the years ahead.

The other news that caught the Western media's attention was Qiao Shi's dismissal from the leadership of the Central Committee. Qiao, the number three person in the Politburo Standing Committee and the chairman of the National People's Congress, had made a reputation by repeatedly calling for greater attention to law, seemingly challenging Jiang Zemin's authority in doing so. Many interpreted Qiao's removal as a retreat from the liberal themes he had been touting. Qiao did indeed present a political problem for Jiang, and Jiang responded by lining up support for Qiao's ouster. Although Jiang apparently surprised Qiao by calling for all those over 70 years of age to step down (only to have party elder Bo Yibo say that the rule should not apply to Jiang himself), the real work had been done behind the scenes. Qiao supporters Wan Li and Yang Shangkun reportedly sat mute through the meeting, realizing that they had been outmaneuvered.

Lost in much of the Western press coverage of Qiao's ouster was that dropping Qiao from the Central Committee facilitated Jiang's move to the "right." Qiao would have taken advantage of any movement to relax political control and emphasize the rule of law in order to increase the role of the National People's Congress at Jiang's expense.

Removing Qiao gave Jiang the freedom to adopt much of Qiao's program, which he proceeded to do with a vengeance.

In his report to the party congress, Jiang devoted considerable space to political and legal reform, saying, "Without democracy, there can be no socialism and no socialist modernization." Although Jiang stopped well short of endorsing anything resembling Western-style democracy, his repeated use of the word "democracy" has prompted hopes of greater opening up. More important for many listeners was his use of the term "rule of law" instead of the standard formula "rule by law." This formulation seemed to presage a new era in institution building and an acceptance of limitations on the arbitrary use of power.

Personnel arrangements made at the congress support the fresh image Jiang has been cultivating, and the removal of many older party personnel is likely to enhance Jiang's ability to control the party. Overall, 60 percent of the 193 people selected as full members of the Central Committee are new. The Central Committee is younger, better educated, and more professionally capable than any of its predecessors. Military representation on the committee has declined from five years ago, and, more important, no military representatives now sit on the powerful Politburo Standing Committee. This, combined with Jiang's call to reduce the military by 500,000 people—including 100,000 officers—indicates a clear effort to make China's military smaller, better equipped, more professional, and less political.

... AND REORGANIZING THE GOVERNMENT

The sweeping changes in China's political leadership continued this spring when the National People's Congress convened. Delegates to the NPC meet every five years to select a new government leadership, including the prime minister, the head of the NPC, and the president and vice president. Li Peng, who had served two terms as prime minister, was chosen to head the NPC, replacing Qiao Shi. Li's selection reflected a delicate political arrangement. As the first top leader (prime minister or general secretary) to face a constitutional limit on his time in office—not to mention one of China's most controversial figures because of his role in Tiananmen—the leadership had to find a face-saving way to ease Li out without stirring up divisive calls for a reevaluation of Tiananmen. Making Li the NPC chairman solved the problem and also opened up the post of

prime minister for the vastly popular Zhu Rongji while removing Jiang's nemesis, Qiao Shi.

These personnel decisions had been made internally at the party congress the previous fall and were duly confirmed by the NPC. More interesting was the plan for government reorganization announced at the session. Pointing to the costs of bloated government, to the demands posed by the reform of state-owned enterprises, and to the challenges presented by the Asian financial crisis, the NPC adopted a sweeping plan to reduce the 40 departments of the government, known as the State Council, to 29.

The reorganization plan simultaneously centralized economic management in the hands of the State Economic and Trade Commission (SETC) and emphasized the indirect management of the economy by eliminating the major economic ministries and reorganizing them as bureaus under SETC management. The SETC will act as a superministry, the command center of a leaner, meaner economic bureaucracy.

*Jiang is
conscious of his
place in history
and wants to
leave his mark.*

Accompanying this sweeping reorganization was the promise to cut the central bureaucracy by 50 percent by the end of 1998, to be followed by similar cuts in the provincial and county-level bureaucracies over the next two years. Bureaucratic organs were told to decide on the "three fixes"—what their functions were; how

many people were needed to carry out those functions, and which personnel were to be dismissed—by the end of April. Although that target was not met, Zhu has staked so much of his reputation on his promised cuts that he will almost certainly achieve them, or come close to doing so. If he does come reasonably close, it would be a remarkable administrative revolution in China, which has seen repeated efforts over the years to reduce the government bureaucracy only to have it quickly swell again to its original size and beyond.

Although Zhu's plan for government reform addresses real problems—the cost of administration, the paternalistic relations between the bureaucracy and state-owned enterprises, and the gross inefficiency of bloated government—he clearly had a populist goal in mind as well. The reorganization of state-owned enterprises announced at the fifteenth party congress requires heavy personal sacrifices, since thousands of people will be laid off. Zhu's government reform plan responded to the pain of the populace by, in effect, saying that reforms will hurt the government too.

entire morning addressing faculty in French, English, Russian, and Japanese (which he said he would speak better if he had not been forced to learn it under the Japanese occupation) and exchanging couplets of Tang poetry with students.

Jiang's visit to Beijing University appears to have been part of a strategy to assuage the anger left by Tiananmen without formally revising the party's judgment on the event. Like the removal of the Yang brothers from the military in 1992, the ouster of the widely disliked Beijing party secretary Chen Xitong in 1995, the various campaigns against corruption, Jiang's ambiguous comments at Harvard University last spring that "sometimes mistakes are made," and the easing out of Li Peng as prime minister, Jiang's visit to the university was an important gesture that tried to put Tiananmen behind him and reach out to the intellectual community at the same time. Perhaps Jiang will eventually reverse the verdict on Tiananmen, but until that time he will at least have tried to distance himself from the event and set a different course.

WEIGHING THE RISKS AHEAD

Sometimes history moves faster than at other times. Such has been the case since Deng's death. Although there seemed little doubt that Jiang would continue as general secretary, it was unclear how he would handle challenges from the left (the various "10,000-character manifestos") and right (Qiao Shi), or what tone he would set for the post-Deng era. More than outside observers had anticipated, Jiang has demonstrated political strength and flexibility, and perhaps even vision. In a matter of months, Jiang made clear not only that he would continue Deng's line of reform and opening up but that he would carry it further by endorsing a new period of "emancipating the mind." He then managed to oust Qiao Shi while stealing his program of legal reform. He also paved the way for Prime Min-

ister Zhu Rongji to carry out sweeping reforms of state-owned enterprises and the state bureaucracy. Finally, Jiang has allowed a more tolerant political atmosphere to emerge, however tentatively.

It could be argued that Jiang is merely responding to the pressures in China, both social and economic, that demand continued change, but the deftness of Jiang's maneuvers suggests that he is taking the initiative. Despite the declaration of the fifteenth party congress that it would "hold high" the banner of "Deng Xiaoping Theory," it is clear that a new, distinctive Jiang Zemin era is beginning to take shape.

The risks for China and the world are high. Nothing in politics is more difficult than engineering a controlled opening. Next year the challenges of layoffs, enterprise reform, bureaucratic restructuring, and the Asian financial crisis will converge at the same time that China faces the tenth anniversaries of the death of Hu Yaobang and Tiananmen, as well as the fiftieth anniversary of the People's Republic and the eightieth anniversary of the May Fourth Movement (the patriotic protest against the Treaty of Versailles that prompted both an intellectual renaissance and the founding of the Chinese Communist Party). It will be an uneasy time, but Jiang is evidently willing to forge ahead despite the risks—a welcome change from the cautious, uncertain attitude that has prevailed in recent years. Moreover, Jiang has made it clear that he views China's relationship with the United States as critical to the reforms he is undertaking.

In seeking a better relationship with the United States—against his domestic critics—Jiang is linking the forces of change within Chinese society to the demands of globalization. Jiang's efforts may fail. But in trying to bring about better governance and a more efficient economic system, Jiang may, whether intentionally or not, be preparing the way for sustainable democratic governance in the long run. ■

In the past year China has experienced a cultural liberalization that many have labeled a new "Beijing Spring." But "the combination of party censorship (even in its more benign 1998 guise) and market forces (which are neither as blind nor as free as generally imagined) continues to stifle public debate and awareness of important social and political issues. . . . Without systemic change any toleration for divergent views in China may prove to be illusory."

Spring Clamor and Autumnal Silence: Cultural Control in China

GEREMIE R. BARMÉ

In September 1997, the fifteenth congress of the Chinese Communist Party instituted policies to shepherd the country into the twenty-first century. The congress sanctioned a new and radical move toward the marketplace. The spirit of the meeting was soon described in the state media as a "thought liberation movement." The liberation was simple: China's unprofitable state sector, especially its massive state enterprises, required downsizing and structural reform. And the bureaucracy itself, bloated beyond control despite numerous attempts to reduce it, was to be radically reshaped.

It was also in the autumn of 1997 that the cultural world experienced the first hint of what in 1998 would be dubbed internationally as yet another "Beijing Spring." There had been any number of political and cultural thaws on mainland China since 1978, when the party launched its economic reform program. Presaged by some shift in central government policy or factional realignment and blossoming amid an outpouring of controversial cultural activity and ideological lobbying, each "spring" in the past had waxed in tandem with economic bullishness and waned as the situation deteriorated; each was invariably followed by a harsh winter of Central Committee discontent. Sensitive to the mood of the policymakers and long before the actual spring of 1998, canny writers took

advantage of the relaxation augured by the party congress to indulge in what is traditionally known as "settling scores after the autumn harvest" (*qiuhou suanzhang*). The main objects of their scorn were the fall guys of the reform age, the political stalwarts of the Mao past: China's ultra left.

Since 1992, when Deng Xiaoping had personally revived the reform effort, the proto-Maoists, often dubbed "red fundamentalists" by their critics, had petitioned the Central Committee, strenuously objecting to the capitalization of China. The authors of these petitions warned that Communist Party rule faced a crisis like that seen in the former Soviet Union; that economic inequities were generating serious social conflicts and even new class warfare; that ideological decay was corrupting the heart and mind of the party (as well as causing mass disaffection within China); and that bourgeois liberalism and cultural liberalization threatened to undermine what remained of socialist thought. Given the hegemonic position of the United States, they cautioned, the nation must be on guard as never before against the enemy within, an enemy that was in league with global capital to achieve a "peaceful evolution" of China into a bourgeois country. Unless resolute action was taken, they declared, counterrevolution and widespread civil strife were inevitable.

These dire predictions had been made secretly within the party, but during the spring of 1998 they were published in a book supportive of President Jiang Zemin that gave a detailed history of the internal ideological strife of the previous years. Entitled *Crossed Swords*, the book was part of a series released under the aegis of Liu Ji, vice presi-

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between personality and a persona: one's something you live, the other's just one more thing to sell."¹

LAISSEZ-FAIRE CENSORSHIP

While Ma Licheng and Liang Zhijun's *Crossed Swords*, Yu Jie's *Fire and Ice*, and Cui Jian's new album are among the success stories of the cultural market in 1998, the long-term effects of political manipulation and censorship are increasingly evident in the realm of serious debate.

In 1996, as part of a renewed campaign for the "construction of spiritual civilization" (*jingshen wenming jianshe*), the party banned a number of important cultural and intellectual journals. Other forums for concerned writers and thinkers continued to flourish, and many important books were published, but their reception was limited to the urban cognoscenti who, through their access to bookstores and insider gossip, enjoyed a privileged knowledge of such work while society at large remained generally unaware of their existence. Recognizing that in the past controversial works had enjoyed considerable cachet because they had been criticized, the authorities, in their wisdom, adopted

a laissez-faire attitude. This cauterization through neglect, or passive censorship, while certainly an improvement on the past, raises complex issues that belie simplistic assumptions that free market principles evolving in the publishing sphere function outside China's political culture, or without constant reference to it.

It would be churlish not to affirm the importance of recent developments. However, the combination of party censorship (even in its more benign 1998 guise) and market forces (which are neither as blind nor as free as generally imagined) continues to stifle public debate and awareness of important social and political issues. As Liu Junning observed when commemorating the tradition of liberal thought at Beijing University, without systemic change any toleration for divergent views in China may prove to be illusory.

Mao Zedong once predicted that eventually intellectuals, workers, and peasants would speak "the same language, not only the common language of patriotism and of the socialist system, but probably even that of the communist world outlook." In the new China at the end of the twentieth century, there is more than ample evidence to suggest that fewer people in any group speak the same language at all, and, despite unprecedented freedoms, many are speaking at cross-purposes. ■

¹This is a line about another cutting-edge cultural figure from Mike Vago, "Dissed Harmony," *New York Press*, vol. 11, no. 21 (May 27-June 9, 1998), p. 20.

"In the end, the fate of China's experiment in grassroots democracy may hinge on whether Beijing will commit itself to extending the process upward. The risks to the regime in moving forward will be tremendous. But after promoting grassroots democracy for a decade and allowing democratic elections to take root in the countryside, the risks of retreat might be just as high."

Village Elections: Democracy from the Bottom Up?

TYRENE WHITE

During President Bill Clinton's state visit to China in late June, his itinerary included a trip to a village outside Beijing whose leaders were elected by popular vote. For both the Chinese and the Americans planning the president's trip, the village stop was potentially very useful. China could use the visit to highlight its progress in promoting and implementing grassroots democracy, and to suggest the possibility of an expanded agenda of political reform. President Jiang Zemin could also use this public event to silence domestic critics of the grassroots initiative and possibly build momentum for further reforms.

The United States could use the village tour in precisely the same fashion. By exposing a skeptical American audience to signs of incipient liberalization and democratization in rural China, President Clinton might be able to increase domestic support for his trip and deflect his many critics. The village tour could be used to reiterate what has become one of the central themes of Clinton's foreign policy: the importance of freedom and democracy to economic vitality and political stability in the twenty-first century.

As it turned out, the village visit was completely overshadowed by live coverage of a joint presidential news conference and Clinton's question-and-answer session with Chinese students at Beijing University. Yet its inclusion on the itinerary was the logical culmination of a decade-long process that has transformed an obscure rural political reform

into a widely touted democratization project with international and foreign policy implications. How and why did this transformation come about? And how do grassroots elections work in the context of continuing Chinese Communist Party rule? Whose interests do they serve?

MANAGING DISSENT

In the mid-1980s, when China's economic reforms began to take off, the country's rural institutions were breaking down. The reforms had begun to undermine the state's monopoly of economic and political power, and many local cadres saw more profit in working their own fields or starting sideline businesses than in carrying out difficult jobs such as collecting taxes and enforcing birth control. Peasants grew bolder in their resistance to authority, especially as price inflation, tax increases, and corruption began to erode the economic gains of the early 1980s and incomes began to stagnate or fall. Meanwhile, local governments sometimes ran out of money to buy peasants' grain and dared to hand out loans instead. Predictably, relations between peasants and cadres, and between cadres at higher and lower levels, grew tense, and skittish party leaders in Beijing began to worry about the prospect of rural unrest.

It was in this context that the foundation for village-level elections was established. In 1986 and 1987, heated debate took place on a draft law on grassroots organization called the Organic Law of Villagers' Committees. Adopted on a trial basis by the National People's Congress (NPC) in June 1988, the law attempted to address the problems of village-level organization and township-village relations by establishing a system of village autonomy (*cunmin zizhi*) and self-management.

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The bill was designed to clarify the legal status of the village, which is not a formal level of government (the township, a level above the village, is the lowest official level of government), and to limit the rapacious tendencies of township and county governments to extract as much as possible from villagers to fund local development projects, pad budgets, and boost salaries. By declaring villages to be autonomous and self-managing, supporters of the bill hoped to establish a sound basis for village organization, and to temper the power of township officials by setting clear limits to their authority and defining village obligations explicitly.

If villages were to have any chance of achieving meaningful self-rule, however, they needed leaders who were empowered to defend village interests while still carrying out those unpopular and thankless tasks—collecting taxes, enforcing birth control—that villagers resisted but the state required. This legitimacy could come only through some form of popular representation or election. To that end, the trial law called for the creation of:

- villagers' councils (comprised of all adults or a representative from each household),
- villagers' representative assemblies (comprised of delegates nominated and elected by the villagers), and
- villagers' committees (comprised typically of about five elected village leaders).

Despite intense opposition from conservative county and township cadres—who feared the new law would erode their power over village leaders—the bill took effect in 1988, only to be derailed by the 1989 democracy protests and crack-down. In the repressive climate that followed, conservatives tried to repeal the law, only to find that they were blocked by Peng Zhen, a conservative party elder who had been instrumental in navigating the law through the NPC. Peng was convinced that village autonomy would stabilize the countryside and thereby strengthen, rather than weaken, party rule. In late 1990, a party central directive endorsed the trial law, and in 1991 it began to be enacted in a variety of locations across the country.

The law's implementation over the intervening years has led to the establishment and election of village assemblies, the public posting of village finances, and the drafting of village compacts that cover rules and regulations on all aspects of village life and state policy. What has earned the law so

much attention at home and abroad, however, is the practice of direct elections of village officials every three years. While the shadow of Tiananmen still hung over China in the early 1990s, few in or out of the country took much notice of the rural reform, assuming that the countryside was a conservative backwater that served as a brake on democracy, or that any elections under Communist Party rule had to be a sham.

SPREADING THE WORD

The office in the Ministry of Civil Affairs (MCA) charged with the implementation of the village autonomy law, the Department of Basic-Level Government, worked steadily and methodically to establish model sites for villagers' autonomy in every province in the country, cultivating close ties with local authorities who were receptive to the program and attempting to win over those who were not. By 1992, contact with the Ford Foundation's Beijing office had translated into an initial cooperative agreement that allowed the MCA to bring foreign advisers and scholars to China, and to send members of the office staff to the United States for brief investigatory visits. That same year, the National Committee on U.S.-China Relations hosted an MCA delegation and introduced the visitors to the operations of local government in the United States. From this beginning the MCA office began to draw increasing media attention at home and abroad, as reporters started to investigate village self-government on their own, or with the assistance and cooperation of the MCA.

Throughout the early and mid-1990s, as international contacts, scholarly interest, and media attention escalated, the process of village elections became institutionalized in many areas. Although foreign observers, especially in the United States, were skeptical about how democratic the elections were, reporting on the topic began to shift as the shadow of 1989 receded and as more information about the electoral process became available. Chinese officials provided access to a wide variety of village election sites, including some that were exemplars of fair and competitive elections and others where elections had clearly been orchestrated by local party leaders. This gave outside observers the opportunity to gain a balanced view of the reform and draw their own conclusions. By the mid-1990s, officials who had confined themselves to the lan-

The grassroots democratization project is a rare piece of terrain on which Chinese interests and American values seem to converge.

guage of “villagers’ autonomy” after the Tiananmen crackdown began to speak more openly about “grassroots democracy,” and foreign observers, while remaining circumspect and cautious in their appraisals, began to acknowledge that village elections showed real democratic potential, even if that potential was rarely fully realized.

As Sino-American relations plunged to their nadir in the wake of the Taiwan Strait crisis of 1996, and as conservatives in Washington and Beijing pressed to gain the upper hand in domestic policy debates, those on each side seeking to avoid a breach in the relationship began to marshal evidence to support a policy of constructive engagement. By 1996 and 1997 that evidence included documentation of progress in implementing rural elections in Chinese villages, documentation that was leading even skeptical observers to appreciate the Chinese effort, however imperfect and limited it remained.

It was by this path that village self-government made its way into the seemingly distant world of foreign policy and Sino-American relations. In a landscape littered with conflicts over trade, human rights, and security issues, the grassroots democratization project is a rare piece of terrain on which Chinese interests and American values seem to converge.

HOW TO THINK ABOUT VILLAGE ELECTIONS

Village elections may aid Sino-American diplomacy, but are they useful and meaningful to Chinese villagers? Answering that question requires critical examination of some of the claims made about village elections.

Village elections are conducted democratically.

Although the Chinese press consistently makes this claim, it is true only by the narrowest definition of democracy. If by democratic one means that China’s villagers get the chance to cast a ballot, then the elections are indeed democratic. If, however, one means that the candidates for village leadership have been democratically selected in a transparent process that meets with villagers’ approval, and that elections to each post are competitive, or at least potentially competitive, then many—perhaps most—village elections do not yet qualify as democratic.

There is no question that hundreds of millions of rural residents now have the opportunity to vote for their village leadership team, a group that usually consists of a village chairman plus several deputies.¹ But specific election methods vary a great deal from place to place. All regions are supposed to conduct their elections according to the Organic Law of Villagers’ Committees, but this still leaves ample room for provinces, municipalities, counties, and even townships to draft laws, regulations, or guidelines that specify local election procedures. In many regions local people’s congresses have drafted laws or regulations, while local branch offices of the MCA have their own set of administrative regulations. This process may eventually lead to a set of harmonized procedures in individual provinces (units equivalent in population to large European nations), but for now there continues to be substantial variety in how the elections are conducted.

The one feature most areas have in common is that the number of people on the ballot exceeds the number to be elected by at least one, thus creating a small element of competition. Villagers are asked to vote for a slate of leaders (for example, choosing five out of six or seven candidates), and may also be asked to indicate which individual on the slate they prefer as village chairman. A step beyond this is direct competition between two or more candidates for the post of village chairman, with the rest of the leadership team selected from a group of nominees that exceeds the total number to be elected by one or two. This type of competitive election first appeared in northeast China during the initial round of elections a decade ago, and was picked up quickly by other regions, such as Fujian and Hebei provinces, which have been leaders in implementing competitive elections.

Just as important as a competitive ballot is the issue of how nominees are selected. The Organic Law allows for several methods of nomination, including indirect nomination by a villagers’ representative assembly, or direct nomination by any group of 10 villagers. Because such public forms of nomination can intimidate villagers or be manipulated by local party officials, some areas have recently moved to a new method of nomination called *haixuan* (literally, election by sea), in which all villagers are allowed to write the names of candidates they would support on a secret primary ballot. Then a process of public winnowing occurs until the two or three most popular candidates have been selected for the final ballot.

¹Estimates of the proportion of China’s 930,000 villages that has held elections range from a low of one-third to nearly two-thirds. This means that roughly 300 million to 600 million villagers have been exposed to the electoral process.

No matter what method of selection is used, the test is whether villagers are satisfied with the candidates who emerge, and with the process that produced them. Some provinces and regions score better on this test than others, and there can be wide variation even within the same county on how the nomination process is conducted. Interference by party and government officials at the township and county levels, or unlawful manipulation of elections by corrupt village election commissions, has led some villagers to lodge formal complaints demanding the voiding of election results. If the complaints are a sign of continuing attempts to rig elections, they are also a sign of the growing sense of empowerment some villagers feel in the face of such abuses.

Village elections are designed to prop up a repressive regime.

It is true that the Chinese Communist Party turned to village elections in the hope that they would ease tensions and create the stability that would assure unchallenged party rule. But village elections cannot be labeled a sham merely because they serve the party; they are a sham only if they do not serve the interests of villagers by making local leaders more accountable. On this point the early evidence, although partial and incomplete, suggests that many villagers believe the elections give them an increased stake and a voice in village politics. According to MCA data, voter turnout is high, including participation by absentee ballot, and roughly 20 percent of incumbents are defeated in each round of elections.

Still, it is also true that where local party officials are determined to control an election they may succeed in doing so, especially if no one in the village complains or the officials have powerful allies at higher levels. As a general proposition for all of China, however, the statement that village elections are a sham is false. The fallacy here lies in assuming that the Chinese Communist Party is one uniform, monolithic authority, when in fact it is not. If China's economic reform has given us a strange, hybrid economic system, it has also given us a strange, hybrid communist system, one in which local power, prestige, status, and money are no longer monopolized by the Communist Party. If the party were monolithic, the villagers' autonomy law would not remain controversial in some quarters. Inland agricultural regions continue to drag their heels on implementing meaningful, competitive elections, while coastal areas in northeast and southern China work to improve the process by

requiring campaign speeches, ensuring full secrecy in the balloting process, eliminating proxy voting, and providing absentee ballots for residents working outside the village.

The assumption that party power is inconsistent with meaningful elections underestimates the importance of local party sanction and support for getting the process right. Where elections have been successfully implemented and where nomination is fair and competition fully integrated, the county-level party secretary is usually a strong supporter of the process, setting the tone for township and village party leaders. So while it is true that party interference can crush all meaning out of the elections and turn the process into a sham in some locations, it is equally true that a supportive party leadership at the county and provincial levels can restrain township and village officials who might otherwise skew the election results their way.

The best indicator of a democratic process is the defeat of candidates who are party members.

This is one of the most common and most misguided assumptions that foreign observers make when evaluating village elections. Certainly it is important to know that non-party candidates can not only run for election, but sometimes win, turning out incumbents who are party members. This provides outside observers with added assurance that the electoral process is reasonably competitive and fair. Viewed from the point of view of China's villagers, however, the defeat of an incumbent who holds party membership may or may not be a good thing for the village, for several reasons.

First, what villagers want is what most people want in a local leader: someone who is honest, competent, capable of improving the local economy, and efficient and thrifty with tax money. They also want someone who will defend their interests in the face of pressures from county and township officials. Depending on local circumstances, local politics, and the merits of the candidates for village chairman, villagers may choose the candidate who is a party member as their best option. They may calculate that party membership will work in the leader's favor, or that his personal or family ties with township and county officials (or, even better, factory managers) will mean more jobs for villagers in township enterprises and greater economic development opportunities. Although party membership no longer carries the clout it once did, it can sometimes be seen as an asset, not a liability, where village interests are concerned.

Second, while party members voted out of office will learn one kind of democratic lesson, those voted into office may learn another. Assuming there is open and fair competition from nonparty candidates, party members who must stand for election and reelection may begin to experience in a new way the tension between their roles as party members and as representatives of their village interests. As a result, what the party gains in legitimacy from winning elections it may lose in internal discipline as village leaders resist the implementation of orders that cut against the grain of village interests. Conversely, but equally positive from the vantage point of villagers, local party branches filled with members who must stand for reelection may become more responsive to village needs and interests and less arbitrary in their rule.

Finally, in some rural villages, the party, whatever its limitations, may be the only force that can restrain the power of a strong local clan or village faction that has come to dominate village life at the expense of the weak and vulnerable. From abroad, the party is easily perceived as the only political bully on the block. But other bullies have emerged in recent years as the power of local party branches has declined. For example, complaints are already being heard about attempts by clans to dominate local elections by engaging in intimidation and vote buying. In villages where this is the case, a strong and uncorrupted party presence would be a welcome improvement, especially if it could eliminate clan violence and break up criminal gangs. In short, the diversity and complexity of contemporary village life and politics are easily overlooked by those who see the Communist Party as the only threat to China's prospects for liberalization and democratization.

China is another Taiwan in the making, building democracy out of authoritarianism.

It is true that Taiwan's experience of first introducing elections at local levels has been noted and studied by Chinese officials, and that China's decision to begin at the grass roots echoes that experience. Yet the differences between the two are so great, and the trajectory of the People's Republic still so uncertain, that any attempts at comparison are entirely speculative.

One of the most important differences at this stage is the scope for elections in China as opposed to Taiwan. When the ruling Kuomintang (KMT) began to implement local elections in Taiwan in

1950 and 1951, it simultaneously introduced elections at the village, township, city, and district levels for positions on local councils. Like the Communist Party in China today, the KMT did not allow organized political opposition, and there was wide variation in the quality of the election process, with central and local KMT officials resorting to an array of methods to defeat, intimidate, or co-opt nonparty candidates.

The difference is that elections were not confined to the bottom of the political hierarchy, as they are in China today. The result, for China's village leaders, is that they alone have been elected to serve, while the government leaders they must answer to are appointed, and then confirmed by local people's congresses. Meanwhile, county and township officials, who are not subject to electoral politics, and with their careers, incomes, and bonuses in the hands of other unelected authorities, find themselves increasingly at cross-purposes with village cadres who live in intimate contact with their electorate and are subject, to some degree, to public accountability. Their instinct is to resist village elections altogether, or to manipulate the process in their favor to ensure the election of compliant local leaders who will make their lives easier.

NO GOING BACK?

In the run-up to the fifteenth party congress in September 1997, the issue of extending elections to the township level was debated at senior levels and tentatively endorsed by President Jiang Zemin. And on June 10, 1998, shortly before President Clinton's trip, a Communist Party Central Committee circular announced the party's intention to "make active efforts" to extend elections to the township level. The fears and uncertainties raised by this prospect, however, appear to have forestalled the creation of a timetable for implementation.

Yet unless China moves quickly to extend the electoral process upward to the township and county levels, forcing state officials to face the same public scrutiny beginning to fall on village leaders, the contradiction between the two political cultures will grow sharper. In the end, the fate of China's experiment in grassroots democracy may hinge on whether Beijing will commit itself to extending the process upward. The risks to the regime in moving forward will be tremendous. But after promoting grassroots democracy for a decade and allowing democratic elections to take root in the countryside, the risks of retreat might be just as high. ■

"Claims that democratization will emerge out of China's economic success have been muted recently because of the ripple effects from the Asian economic crisis. ... Yet the real problem with these claims is not that current economic difficulties will postpone democratization to the future: it is that the assumption of a link between the rise of new economic elites and democratization is logically flawed and not supported by empirical data."

China's Emerging Business Class: Democracy's Harbinger?

MARGARET M. PEARSON

The phenomenal economic changes spawned by China's post-Mao reforms have revolutionized the country. Year after year, growth rates are among the highest in the world. The economy continues to incorporate market practices and is exposed, for better or worse, to global market forces. The far-reaching socioeconomic results of China's economic reforms can also be observed, including a new consumerism and deep concerns about the ill effects of unemployment.

Another result of the economic reforms is the emergence of an increasingly cosmopolitan business elite. Many analysts consider it self-evident that this new economic elite will be the carrier of democratization or "civil society"—the autonomous economic, religious, intellectual, and political institutions that act independently of the state and compete with each other. This assumption has also been at the core of United States-China policy in both the Bush and Clinton administrations: encouraging the growth of a business class in China is seen as furthering America's goal of democratization. After all, economic elites have newfound resources with which to shield themselves from the state. And the markets they have created would undoubtedly benefit from a liberal government.

Claims that democratization will emerge out of China's economic success have been muted recently

because of the ripple effects from the Asian economic crisis, and the expectation that Prime Minister Zhu Rongji will deepen state-owned enterprise reforms that may lead to massive layoffs and, perhaps, instability. Yet the real problem with these claims is not that current economic difficulties will postpone democratization to the future: it is that the assumption of a link between the rise of new economic elites and democratization is logically flawed and not supported by empirical data. China's new business elite, while possessing relatively great autonomy and often holding politically liberal beliefs, has not emerged as a strong independent force. Rather, both the state's efforts to co-opt this group and its ability to navigate the business environment using nondemocratic means have denied China's new business elite the historical political significance many would wish for it.

DEFINING THE NEW BUSINESS ELITE

Members of China's new business elite work in the most advanced sectors of the country's economy. Two core segments of this group are owners of private enterprises and managers in foreign businesses operating in China. These private and foreign business sectors were a creation of Deng Xiaoping's policies of domestic reform and "opening to the outside world," which were initiated in the late 1970s. Reversing a long-held antipathy toward markets and foreign capital, the post-Mao reformers encouraged private and foreign investment with the hope of raising productivity and innovation, growing the economy, and attracting advanced technology and managerial skills from outside China. As a result of these reforms (and a

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favorable international economic environment), China's economy has grown an average of 10 percent a year for the past two decades.

Although private firms in China tend to be small, they are growing in size and economic importance. Most have been established in the manufacturing, mining, transportation, and construction industries, but they have become a significant presence in the nascent professional-services sector, especially finance and real estate. In 1994 the government reported that there were 420,000 private enterprises, but the actual number is believed to be much higher.¹ In the foreign sector, Sino-foreign joint ventures, wholly foreign-owned enterprises, and representative offices of foreign companies have emerged as important players in the economy, especially the export sector. As of 1997, over \$200 billion in foreign capital, funding more than 300,000 projects, had flowed into China. About two-thirds of that investment originated in Hong Kong (now, of course, part of China) and Taiwan. Despite the dramatic growth in foreign investment, as of 1996 foreign capital—including that from Hong Kong—employed less than 1 percent of the entire Chinese workforce.

The foreign and private sectors have attracted an impressive group of people. The formal educational level of elites in these sectors tends to be high, although Horatio Alger stories are not uncommon, especially among those who were denied a university education during the Cultural Revolution and are now in their late forties. Elites in the foreign and private sectors command a relatively high income; they are paid many times the average manufacturing wage in China (which in 1996 was approximately \$680 per year) and have a high standard of living. These attributes—position, education, and income level—have translated into considerable prestige in China's urban society, although recent corruption scandals involving elites have taken a toll.

Positions in the private and foreign sectors are attractive because they allow workers to use their expertise and gain responsibility, often at a comparatively young age. Indeed, younger entrants to these sectors frequently have eschewed the safe jobs traditionally offered on university graduation, especially those in state-owned firms or the government bureaucracy. Elites also are attracted by the chance to gain international experience in the foreign sector.

¹The private (*stying*) sector is to be distinguished from individual (*geti*) enterprises, which are also privately owned but usually have fewer than 10 employees and are concentrated in the consumer service (restaurants, for example) and retail sectors.

The upper echelon of Chinese managers employed in private and foreign firms is small, estimated at not more than 50,000 and 5,000, respectively, as of the mid-1990s. In the foreign sector, members of the elite are disproportionately concentrated in Western and Japanese firms, which offer the highest salaries and status and hire those with the strongest educational credentials. Many of these managers have been educated at China's most prestigious universities and some even possess MBA degrees from Chinese or foreign universities.

IN RELATION TO THE STATE

Not only have China's business elites taken on new economic roles, they have also carved out a new relationship with the socialist state. Their situation contrasts sharply with that of managers in government-owned enterprises. This latter group historically has been—and remains comparatively so today—tied to and dependent on the party-state. Their work is overseen by Communist Party cadres working within the enterprise. Their welfare, especially housing, medical care, and pensions, has been at the mercy of a system run by these cadres, one that rewards political loyalty as much as or more than managerial capacity. A dossier of employee activity is kept at the enterprise. In the absence of a labor market, these dossiers have been hugely influential in promotions or job transfers. The political, socioeconomic, and personal dependencies of state-sector managers have bound them tightly to the enterprise and the state.

This kind of dependency on the party-state has largely been severed in the foreign sector and, to a lesser degree, the private sector. The market orientation of these new business sectors, which are at least partially under the authority of foreign firms rather than party cadres, has translated into a significant degree of autonomy. This is especially true in southern China and Shanghai, where business elites find their more freewheeling ways unencumbered by state bureaucrats. The party presence in both sectors is minimal and ineffectual. Labor mobility is much greater; workers switch jobs at will in search of higher pay and more responsibility. Personnel dossiers are kept outside the enterprise; their contents are essentially ignored by foreign employers and have become irrelevant for private enterprise owners.

Welfare benefits are provided, if at all, by enterprises outside the state system. For example, managers in private and foreign-funded enterprises frequently must use their higher salaries to purchase

or rent housing. This of course removes some of the security that most Chinese have seen as a birthright, but to these elites the risk is worth it.

Throughout post-Mao China, the private and foreign sectors have seen a resurgence of business associations (*xiehui*). These associations are to be nongovernmental (*minjian*) actors that facilitate economic growth at a time when the growing complexity of the economy dictates that the state devolve many functions it had previously carried out. Their nongovernmental status is to distinguish them from the mass organizations (*qunzhong tuanti*) of the Maoist era, which were "transmission belts" for state policy and hence dominated by state interests. An important function of such associations is to act as advocates for newly legitimized business interests. They have helped businesses with arbitration and coordinated businesses' ties with government agencies. The associations claim to pass complaints of businesses upward to relevant government authorities, and in some cases they have successfully influenced the state's policy toward business, although usually in narrow areas and at the local level.

PLAYING IT SAFE

China's business elites hold political and economic views that are decidedly more liberal than those expressed in official policy. This is not unsurprising, given the general profile of the people attracted to the private and foreign sectors. These elites view near-total use of markets and deeper privatization of the economy as necessary, although they believe steps in this direction must be carefully crafted so as not to produce social unrest. In addition, foreign sector elites in particular have been strongly influenced by their contacts with foreigners and often by their experiences abroad. They see virtually nothing in the workings of the international economy that they judge inappropriate for China.

In these elites' views of politics in China, the most notable sentiments are, at best, indifference and, at worst, hostility and disgust. There is a strong distaste for communism. Indeed, an important reason for choosing jobs in these two leading sectors is to escape politics. The elites favor political liberalization that will promote the freedom to live their lives and work as they see fit. Significantly, the freedoms they claim to value most are small ones, such as the ability to travel freely, rather than democracy writ large. Private enterprise owners tend to be somewhat less liberal than foreign-sector managers, moreover, believing that political change should be initiated and controlled by the state. They have been critical

of the student-initiated demonstrations at Tiananmen Square in 1989, while foreign-sector managers have been considerably more sympathetic. Nonetheless, the views of both private entrepreneurs and managers in foreign firms are quite liberal.

China's new business elite has thus carved out a relationship with the state that diverges substantially from what existed under Maoism and from what exists for most of the urban population today. Members of the business elite in the foreign and private sectors have structured lives for themselves largely outside the purview of the state. They have strong opinions about the need for China to move away from its status quo—further away than is officially accepted by even reformers in the government.

BUT CIVIL SOCIETY?

Despite these changes, the question remains: Has this elite stratum, born of the economic reforms, created pressure on the state for political reform, and has it acted as a nascent force for democratization? Both types of entrepreneur enjoy considerable autonomy, and would seem to be better positioned than any other social group in China to generate civil society. And yet they disappoint those who would assign them this historic role.

To understand this failure, we must examine the expectation that the new business class will serve to promote democratization. This logic of the emergence of civil society proceeds in two sets of steps. It is posited, first, that for market reforms to succeed the state will have to devolve resources and decision-making authority to new economic actors. Moreover, new markets will provide an additional source of goods such as housing that previously have been the monopoly of the state. Once decentralization of the economy and the growth of market alternatives have created greater autonomy from the state, people will develop horizontal relationships within society (such as through business associations that lobby the government) and will understand themselves to have economic interests that, to a significant degree, diverge from those of the state.

If these changes are to translate into actual political reform initiated from below, a second set of steps involving consciousness and political behavior must occur. Strengthened horizontal relationships must lead to a group consciousness among new economic actors, and to a belief that they can determine their own economic fate. This realization must, in turn, stimulate involvement in political activity. Not only must new economic groups act readily—they must also act toward certain ends.

New middle classes and business classes must have an interest in pressing for greater freedom from state controls. They must also be motivated to act by the belief that their interests will not be protected in their current situation. Ultimately, because political freedoms will be seen as necessary to protect economic freedoms, these new groups must press for extensive liberalization of the polity. The results of their efforts will be civil society.

THE LIMITATIONS OF TRICKLE-DOWN DEMOCRACY

Even though economic reform may empower new groups, spur them to realize diverse interests, and create greater opportunity for autonomy from the state, these phenomena have not ensured the will to act or the desire to democratize. Although economic reform may create conditions conducive to democratization, the development of a liberal polity is multifaceted, extremely complex, and easily thwarted. For example, the interests of new economic actors may not actually support democratization but may instead lead them to collude with the state against labor, or simply remain apolitical. Moreover, scholars who observe transitions to democracy from socialist regimes emphasize that the key to a successful transition (as occurred in Poland) is the ability of societal groups and the state to organize within themselves, and then negotiate a pact with each other. But societal interests may not be able to organize themselves to push for liberalization, and the state may refuse to enter a pact-making negotiation, trying instead simply to smash any nascent opposition. A more subtle yet powerful strategy is to preempt the growth of organized political pressure from new economic actors, even while encouraging their economic dynamism.

With this logic in mind, we can observe what has happened in China. Most of the first set of steps toward civil society has actually occurred, as is clear from the previous description of the new business elite. The state has devolved authority to members of the elite, who are much less dependent on the state and are, ideologically, liberal. Yet while we must not ignore these inklings of civil society, we must recognize that the picture is decidedly more complex; these are just inklings. Indeed, the second set of steps has not occurred in China. Conditions that would seem to favor a democratic push by the business elite have been deflected by three factors: the actual perceived interests of most members of the business elite; the

existence of alternative mechanisms for mediating with the state; and efforts by the state to preempt the business elite as an opposition force. Each of these counterforces can be considered in turn.

In terms of their perceived interests, although as a group members of the business elite oppose the current regime, most wish to avoid participation in politics. Though proud of their economic role, they are not, and do not wish to be, at the forefront of political change. They have not taken to the streets to protest policies, nor have they organized themselves to lobby or negotiate with the government for policy change. The apparent paradox of being antiparty but also apolitical can be explained in part by the personal experiences of these businesspeople. Having been forced into activism, particularly during the Cultural Revolution of 1966–1976, many

tend to have a strong distaste for politics. Others have family members who suffered state discrimination during the Cultural Revolution or other campaigns. They do not readily distinguish between activism forced by the state on behalf of the state and more spontaneous organization in their own interests. They prefer instead to immerse themselves in business. Members of the business elite also believe they are powerless to effect the changes they might want because they are too vul-

nerable to forge a new relationship with the state. Consistent with this perception, the business elite has not formed a strong network of horizontal ties or a strong group consciousness.

Although members of the business elite may not be willing or able to act politically, they possess an alternative strategy—clientelism—to make their influence felt with officials. Clientelism is the careful cultivation of informal personal relationships (*guanxi*) with central and, most often, local officials who work in the ministries and offices with some authority over the elites' businesses. Sometimes such influence is the outcome of bribes, but often it involves drawing on familial, clan, school, or other connections. Ironically, while members of the business elite have built few ties with others like them, they are at great pains to develop personal relationships with those in authority, and to use those relationships to benefit their businesses. Such methods of influence are, of course, found in all countries. What distinguishes China is that these means appear to be the foremost mode of influence on government matters by businesspeople.

There is ample reason for skepticism that the business elite will emerge as a catalyst for major political change in the People's Republic.

Clientelist strategies are more acceptable to the government than organized behavior by a potentially dangerous societal group. For members of the business elite, personalistic ties are a well-established method to influence the government and less risky than more organized action—especially when the political environment takes a lax attitude toward corrupt practices. Cultivation of personal ties is also effective. Although their businesses may be obstructed by government laws, members of the business elite believe that the problem can often be avoided by using the “Chinese way” of getting things done. Thus, despite their desire for a new economic system and disgruntlement with status quo politics, members of the business elite do not reject and indeed see as highly functional traditional clientelist means available to them to gain the compliance of officials.

The newly established business associations in the foreign and private sectors were intended to be legitimate advocates for economic interests that are independent of the state. And, as we have seen, they serve this function to some degree. Yet business associations also have a Janus-faced quality. The state's intention is to remain heavily involved in them and, ultimately, to use them to co-opt and influence business interests rather than be influenced by them. These associations represent an attempt by the state to unleash the power of business, but in a manner that directs it toward the government's goals and prevents the newly created forces from acting against state interests. The business associations have been organized and sanctioned by the state, and their leadership has been dominated by cadres dispatched from related ministries. Their legitimacy derives solely from having received state sanction. Members of the business class see them as state dominated and not especially useful except as vessels for clientelist ties.

REASONS TO REMAIN SKEPTICAL

The emergence in China of a pattern of clientelism-cum-corporatism rather than democratization is unsurprising since clientelism and corporatism are deeply rooted. The use of informal personal ties to influence the state has pervaded China both before and after the 1949 revolution. The Janus-faced character of China's new business associations is strongly reminiscent of the policies of both the Qing and Nationalist governments to promote economic development while controlling the political role of business. Although not ideal from a Western perspective, the predominance of

clientelism and corporatism over democratization has proved functional for the government and the business elite; business has thrived financially while the state has avoided pressures for significant political change. Distributing benefits through clientelist mechanisms is a relatively low-cost means of quelling unhappiness in the crucial private and foreign sectors. And clientelism is too diffuse and fragmented to be a regular and organized channel for business to promote lasting policy change.

There is therefore ample reason for skepticism that the business elite will emerge as a catalyst for major political change in the People's Republic. The contemporary business elite will continue for some time to cooperate closely with officials (especially at the local level), and its business associations will remain, ultimately, dominated by the state. The segments of China's new business elite in which we are most likely to find greater independence from the state exhibit the behavior not primarily of civil society but of clientelism and corporatism. It is thus unlikely that other segments of the business elite that start out more closely tied to the state—such as officials-turned-entrepreneurs—will be at the forefront of significant political liberalization.

We can expect that other segments of the business elite will fit even more easily into the pattern that has emerged. And it is unlikely that actors in other key parts of the economy—the state-owned and collective sectors—will establish patterns of interaction with the state that are more independent and democratizing than what exists in the foreign and private sectors. It is true that, as the economic reforms deepen, individuals in these other economic sectors will increasingly rely on the market for jobs and the provision of other necessities. But these changes have not occurred at the pace or to the degree found in the private and foreign sectors, and clientelism and corporatism are equally, if not more, prominent there as well.

China's future will not be determined by its antidemocratic past. Nor will the future necessarily continue on the current path, no matter how functional that path appears at the moment. Moreover, other noneconomic groups in China—dissidents, intellectuals, students—could prove successful at coaxing civil society. Yet, as with China's new business elite, the democratizing role attributed to these groups should be subject to close empirical scrutiny, and facile assumptions about the link between economic change and political liberalization should be avoided. ■

"At just the wrong time, the [Asian financial] crisis arrived to subtract growth momentum from an economy that was already slowing too rapidly for comfort. For perhaps the first time in its post-1949 history, China is facing an external macroeconomic shock that is having a significant destabilizing impact on its domestic economy."

China's Economy: Buffeted from Within and Without

BARRY NAUGHTON

The East Asian financial crisis that broke during the second half of 1997 has begun to disrupt China's growth and create new challenges for its reform program. Yet for all its drama and surprise, it is not the Asian crisis but the results of domestic policies that have formed the strongest currents carrying the Chinese economy. Hewing to a fixed course, the economy has been steered into unfamiliar and potentially treacherous waters. The recent turbulence makes it unclear whether the existing policy setting can be maintained, and whether it is the best course.

The basic policies that have governed China's economy in recent years were first laid out in 1993 and 1994. These were closely associated with the views of Deputy Prime Minister—now Prime Minister—Zhu Rongji. Indeed, the link between the individual and the policies is sufficiently close to warrant calling the whole the "Zhu Rongji policy package." Zhu has been the main beneficiary of the success of these policies, riding them to a position just one notch below the top of the Chinese political hierarchy. The prime minister has a great deal dependent on the success of these policies; and the renewed difficulties they face this year must be a matter of great concern to him as he contemplates his political future.

Zhu's policy package had two main elements: austerity measures designed to control inflation, and a set of reforms designed to create tough uni-

form rules that govern markets and apply equally to all enterprises. In the past year, these policies have been joined by a new program of state enterprise restructuring. This program grew out of the Zhu policy package and earlier reform experiments, but the scope of it is much larger—more ambitious and riskier—than previous reforms.

Although a consistent approach to economic policymaking has prevailed in Beijing for more than five years, the economic conditions confronting this approach have been altered radically. Three important changes stand out. First, the fight against inflation has been won, with inflation nonexistent by the end of 1997 (but with economic growth slowing as well). Second, as state enterprise restructuring has intensified, unemployment of state workers has emerged as a significant problem for the first time. And third, the Asian crisis has begun to cut into Chinese exports, further slowing overall economic growth.

Buffeted by these shocks, policymakers have begun to worry about growth, which they are now scrambling to keep at 8 percent in 1998. The long-running current of domestic policymaking is thus beginning to shift, while the Asian economic storms continue to blow unabated. Chinese policymakers are summoning all their skills to navigate these treacherous waters.

ZHU RONGJI'S STAMP

Zhu's personal dominance of economic policy dates to 1993. The previous year, economic reforms had been reborn with Deng Xiaoping's "Southern Procession," during which the paramount leader touted the benefits of reform. But if Deng unleashed a "dragon" in early 1992, it was Zhu Rongji who

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wrestled this dragon into a new and unfamiliar shape. The result was a policy regime covering both economic reform and macroeconomic policy.

Past reform periods—including Deng's 1992 reform revival—had always been cyclical. As reforms intensified, a familiar pattern of decentralization, marketization, and slackening of rules and oversight emerged. As a result, reforms were frequently accompanied by considerable financial laxity, rampant speculation and corruption, wide-scale diversion of public resources, and significant inflation. Moreover, reforms undertaken in the 1980s had often meant creating special opportunities for privileged enterprises or regions (such as special economic zones, or SEZs), even if this entailed different rules, different prices, and different opportunities for different types of actors. Inevitably such periods were followed by policy retrenchment and macroeconomic austerity. This created the cyclical pattern of reform (and inflation) that had already been extensively critiqued by one group of China's economists.

This group has now been brought to prominence as policy advisers to Zhu. These younger technocrats knew they faced the challenge of moving China's reform process out of the past boom-bust cycles and onto a new track of more stable and disciplined policymaking. During 1993, Zhu cracked down hard on financial speculation and shifted macroeconomic policy toward a conservative, moderately tight money approach. The most important reforms carried out under Zhu between 1993 and 1995 introduced new rules (and new prices) that at least in principle applied equally to all economic actors.

During this period an entire series of reforms and regulations was rolled out that affected nearly every aspect of the economy. New laws were promulgated that covered labor, corporations, and the banking system. Some of these—such as foreign trade reform—were immediately successful. But most of these reforms did not work right away. It was easier to pass laws than to actually change the way people did things. Exceptions and exemptions were numerous. The regulatory system became more consistent and intelligible, but in the short run it did not create a "level playing field."

Fiscal reforms are a good example. These were designed to deal with a severe budgetary crisis that had seen total government revenues as a share of GDP slide from 36 percent in 1978 to only 14 percent in 1993. The purpose of the reforms was to increase revenues while reducing the earlier reliance on income from state-owned enterprises (SOEs).

Revenues would come from an ordinary tax system carrying lower, uniform rates that would apply to all businesses.

To make the fiscal reforms acceptable to a broad political constituency (especially to local governments and foreign investors), they were accompanied by a number of specific concessions and exemptions. Partly as a result—and partly because of the unfamiliar new measures involved, especially the value-added tax—the reforms initially failed to enhance government revenues. Instead, revenues fell to 11.2 percent of GDP in 1995, the second year after the reforms.

Gradually, the fiscal reforms began to take hold. Familiarity with new institutions improved compliance, and administrative structures were built. Some initial tax exemptions were temporary and expired. Nineteen ninety-five was the low point in budgetary revenues as a share of GDP, and the corner was then turned. The revenue share of GDP increased the next two years, reaching 12 percent of GDP in 1997. This is not a huge change, but it is significant: moving 1 percent of GDP into the government revenue column is a political challenge for any country, and the shift represents a change of direction in long-established trends.

CURTAILING INFLATION

Macroeconomic restraint was initiated in July 1993, and after a time lag succeeded in controlling inflation. In 1997 the consumer price index increased only 2.8 percent, down from its peak increase of 24 percent in 1994. Crucially, inflation control was achieved through the moderate but sustained use of orthodox macroeconomic tools. Credit and money supply growth were kept below the rate of nominal output growth to gradually slow price increases without slowing the real growth rate of output substantially. Beginning in 1996, Chinese economists began to proclaim that they had achieved such a "soft landing."

The foundation of macroeconomic restraint was conservative monetary policy. The real growth rate of credit was restrained. Many irregular loans made "off the books" during the boom years of 1992 and 1993 were recalled. Standard administrative tools were used to increase monitoring, and crude but effective tools such as credit quotas were used to keep credit growth down. As inflation fell, real interest rates rose (real interest rates are the nominal interest rate minus the inflation rate).

Although nominal interest rates were reduced twice in 1996, and again once in 1997, they did not

decline as rapidly as the inflation rate. Real interest rates for bank loans increased from negative 10 percent in 1994 to a positive 7 to 8 percent in 1997. These high real interest rates permitted banks to begin to restore their eroded capital base somewhat, since deposit rates declined more rapidly than lending rates. Moreover, as enterprises found themselves paying substantial interest rates, they began to rethink their dependence on easy access to bank credit. Easy access to expensive credit was not nearly as attractive as easy access to cheap money!

Important changes were also made in the banking system. These changes increased the authority and relative bargaining position of the banks as they negotiated with their primary customers, the SOEs. Banks began to make their own lending decisions, and increasingly said "no" to enterprises and their sometimes powerful patrons.

These shifts in bargaining power resulted from the incremental effects of a number of changes in the financial system. The 1995 banking laws created a partial recentralization of the banking system, making local branches more dependent on their Beijing headquarters and less dependent on local government officials. Government development banks were created to take over government-mandated loans, allowing the other banks to take a commercial approach to lending. Zhu Rongji—who for a time served personally as the head of the central bank in addition to being a deputy prime minister—also issued a new guideline for the (Beijing) bank heads: banks must make a profit. Any bank head who did not turn a profit, he is reputed to have said, would be fired, period. And it was made clear that the banks had the money, and had decision-making authority—at least a veto—over use of the money.

New restrictions were also imposed on the informal flexibility bank officials had enjoyed since 1992 in an attempt to end the widespread diversion of funds and corruption. Bank officials were subject to greater monitoring and accountability, but at the same time gained more authority to conduct their legitimate business.

These changes did not add up to central bank independence. Rather, they implied clear central bank subordination to a policy line strongly and publicly supported by the top leadership (and personally by Zhu Rongji). The central political leadership lent its own authority temporarily to the banking system, then put in place a modest pack-

age of regulations and incentives that left at least some of that authority with the banking system. Under more consistent pressure and facing stricter budget constraints, banks took a tougher bargaining stance with SOEs and imposed stricter budget constraints on the enterprises.

THE NEW MARKET ENVIRONMENT

With these policies in place, a new market environment began to emerge that put tremendous pressure on SOEs. Macroeconomic austerity naturally restrained the growth of market demand, and created a tougher environment in which SOEs had to compete. Moreover, a diversified production network has now been created in China, following more than a decade of rural and small-scale enterprise growth and almost five years of massive foreign investment inflows. In 1997, SOEs accounted for only 26.5 percent of total industrial output, less than the 40.5 percent produced by collective firms, and even less than the approximately 30 percent produced by private and foreign-invested firms together. As a result, SOEs face unprecedented competition in product markets.

With tough market competition and curtailed access to cheap bank credits, SOEs found themselves in a squeeze. Overall, industrial SOE profits sank to 45 billion yuan in 1997 (after deducting losses), or only 0.6 percent of GDP. This is an enormous change from the old days in which industrial SOEs used to turn over profits amounting to 15 percent of GDP to the government. All the net profits were made by large SOEs, which are usually managed by the central government and enjoy some form of market protection because of technological barriers to entry or government policy. Small and medium-size industrial SOEs, which are generally managed by local governments and are more exposed to the brunt of market competition, together recorded a net loss of 16 billion yuan in 1996.

Under these conditions, local governments found themselves rethinking their attitudes toward their enterprises. In the past, local SOEs had been "cash cows" that served as a reliable source of revenue and employment for local officials. Now they were no longer so lucrative, and many had in fact become burdens. Fiscal reforms had already altered the revenue base of local governments; instead of relying directly on SOE profits, they now relied primarily on value-added taxes, which are in principle

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collected at equal rates from all enterprises, regardless of ownership. With the fiscal system loosening their links to SOEs, and unable to turn to the banking system for bailouts, local officials began to look for other ways to reduce the burden of money-losing SOEs.

PRIVATIZATION IN ALL BUT NAME

Political changes in Beijing signaled local officials that they had a virtual free hand to resolve their economic problems. The result has been a wave of sales, privatizations, and bankruptcies of local enterprises that together constitute state enterprise restructuring. In the fall of 1997, the fifteenth party congress essentially removed any remaining ideological barriers to local restructuring. As long as restructuring is shown to be in the public interest, local governments are free to carry out almost any program, including one that involves *de facto* privatization. Although the term is still avoided, privatization is occurring throughout China.

Enterprise restructuring typically takes the following forms. The former SOE is converted into a limited liability joint-stock corporation. In some cases, shares are distributed without charge to workers and managers (usually a maximum of 20 percent of shares is to be distributed this way). In other cases, workers receive only the right to purchase shares—sometimes all the shares—of the new corporation, typically at a significant discount. In addition, sometimes a financial interest in the firm is sold or assumed by other corporate or government entities, and sometimes shares are sold to the public. This process recognizes that existing workers and managers have a stake in the firm, and that privatization that attempted to ignore that stake would likely fail. Still, the process does not generally involve worker ownership as such. Once the shares have been distributed, workers are generally able to buy and sell them.

Because of the variety of local experiences, the scope of enterprise restructuring is difficult to capture. The number of employees of industrial SOEs declined from a 1993 peak of 45 million to about 40 million in 1997, although there is evidence that the statistics lag behind the reality. The number of joint-stock companies is increasing rapidly. Those listed on the Shanghai and Shenzhen stock exchanges—a small but important subset of all joint-stock companies—increased from 530 to 745 during 1997, and total capitalization of listed companies jumped from 14 percent to 23 percent of GDP. While the indicators are imperfect, there is lit-

tle doubt that an important process is dramatically reshaping China's economic landscape.

In general, local interest group politics determines the process of enterprise restructuring; the deciding interest is that of local government. Rapid SOE restructuring occurs in areas where local officials have concluded that the process is in their interest. Typically this is where private firms are already numerous, and publicly run firms lose money.

In the coastal provinces of Shandong and Zhejiang, which meet these conditions, restructuring is proceeding quickly and economies are becoming increasingly private. In Jiangsu province, near Shanghai, restructuring has been much slower. Because local industry developed early in Jiangsu, networks of local industrial systems have emerged in which government officials and local enterprise management are deeply entangled. As a result, local officials are attempting to deflect the national trend toward restructuring.

Herein lies the greatest limitation of SOE restructuring: the dominant role of local officials opens the door to substantial abuse. Restructuring creates new opportunities for personal gain, and sales and distribution of an enterprise's shares, in a nontransparent environment, allows insider deals and blatant corruption. In the extreme are cases of workers pressured into purchasing shares of worthless enterprises. Told that their only option to keep their jobs is to buy the firm, workers find that after the sale the firm fails anyway, and they have lost not only their jobs but also their life savings. In such cases, enterprise restructuring is just a swindle.

UNEMPLOYMENT ON THE RISE

The SOE restructuring has caused a steep rise in unemployment. Moreover, the urban unemployed now include many former state workers who, in the past, were guaranteed job security. Chinese data only imperfectly reflect these trends. For example, official unemployment has grown relatively moderately, from 2.3 percent of the urban workforce in 1992 to 3.1 percent at the end of 1997. The 5.7 million unemployed under this definition do not include former state workers who still retain ties to their original work unit (in order to stay eligible for health care or retirement benefits), or unemployed workers who have not registered at the employment office. Equally relevant is the number of workers temporarily or permanently laid off by SOEs: from 3 million in 1993, this increased to 11.5 million by the end of 1997. About half of these have found

new work, but a realistic estimate of the urban unemployed would still be between 9 million and 10 million, not including recent rural migrants. While this constitutes between 5 and 6 percent of the urban workforce—creating an unprecedented problem by Chinese standards—it is not an unusually high unemployment rate by the standards of a market economy.

The rapid growth of urban unemployment is one of the greatest challenges facing the program of state enterprise restructuring. Laid-off workers are joined in their discontent by workers who find that their wages are not fully paid and by retirees whose pensions or medical benefits have disappeared. The unemployment numbers indicate that state enterprises are under enormous economic pressure from which they are simply unable to shield their own workers. The “iron rice bowl” has been broken, and Chinese workers are fully vulnerable to layoffs and unemployment.

Yet despite its defects, SOE restructuring is essential if China is to shed the burden of inefficient firms and move forward into a new era of economic expansion.

THE ASIAN CRISIS HITS

By the second half of 1997, Zhu's reforms had already brought the Chinese political economy to a turning point. On the positive side, inflation was at zero and enterprise restructuring was under way. At the same time, unemployment was rising and the economy was slowing more quickly than had been anticipated. In 1997, per capita urban income growth dropped to 3.9 percent, and urban per capita consumption grew only 1.2 percent. Rural dwellers fared better, but there were clear signs that slowing growth and increased uncertainty were producing anxiety and suppressing consumption growth.

Into this delicate balance came the Asian financial crisis. At just the wrong time, the crisis arrived to subtract growth momentum from an economy that was already slowing too rapidly for comfort. For perhaps the first time in its post-1949 history, China is facing an external macroeconomic shock that is having a significant destabilizing impact on its domestic economy.

Potentially, the Asian crisis could affect China's economy through “contagion” or through influence on the demand for Chinese exports. Fears of contagion initially arose because of the weak financial health of China's banking system and because of the

unexpected virulence of financial contagion among the other East Asian economies. But China is unlikely to experience the swift outflows of capital that make an economy susceptible to contagion. China's currency is not fully convertible: To change the yuan into dollars, businesses must present documentation that the conversion is part of a trade transaction. This makes it difficult to move large amounts of capital rapidly and impossible to make sizeable speculative bets against the Chinese currency. Moreover, China has large foreign exchange reserves (\$140 billion at the end of 1997) and a strong balance of payments surplus, comprised of a \$40 billion trade surplus and major direct investment inflows. All this means that China is unlikely in the short run to suffer from a financial panic.

However, competitiveness effects on Chinese exports have been significant. In 1997, about 40 percent of Chinese growth came from the increase in net exports. This is likely to drop off significantly during 1998; indeed, in May, China's exports contracted slightly, compared to the previous year period. An even more dramatic decline is likely to be registered in foreign direct investment, about two-thirds of which has traditionally come from Hong Kong, Taiwan, Singapore, and “overseas Chinese” businesses throughout Southeast Asia. These investors have been hit hard by the Asian flu, and have much less to invest.

In China itself, uncertainty among consumers is leading to deferral of purchasing. And uncertainty among enterprise workers is now spreading to government workers, faced with potential large-scale layoffs as part of government restructuring. These factors have slowed the economy significantly in 1998: first quarter GDP growth was only 7.8 percent, and preliminary reports suggest second quarter growth fell below 7 percent.

Intensely proud of their soft landing, Chinese economists and policymakers were slow to see the signs of a decelerating economy. This is hardly surprising: the macroeconomic restraints imposed on the economy since mid-1993 have produced enormous benefits, and the most influential economists were reluctant to urge a relaxation of macroeconomic policy.

THE BEST-LAID PLANS

Chinese economists generally remained in denial through about November 1997. At that time the national planning conference, which establishes the

The stimulus measure that has been repeatedly ruled out is the devaluation of the yuan.

main parameters for government activity in the following year, set a fixed investment growth rate target of only 6 percent in 1998, which would have condemned the economy to a recession within the year. Finally, in December, economic advisers recognized the seriousness of the situation, and Prime Minister Zhu Rongji accepted the need for additional economic stimulus. At the follow-on economic work conference that month, the target for growth of fixed investment was raised to 15 percent, and policy shifted to locating new sources of increased demand consistent with existing policy.

A series of new stimulus policies was rolled out each of the first six months of 1998. The centerpiece was a relaxation of monetary and credit policy, to be implemented by reducing the required reserve ratios for commercial banks and cutting interest rates. In addition, housing reform has been stepped up, with new mortgage programs targeting individual home buyers rather than (as in the past) property developers. In the export sector, tax rebates have been increased, including for textiles, shipbuilding, and iron and steel, although the most important price-sensitive export sectors have not been included. Finally, preferential tax policies for incoming foreign investment have been reinstated in a number of high-technology sectors.

The stimulus measure that has been repeatedly ruled out is the devaluation of the yuan. Concerned

that a devaluation would lead to a further round of competitive devaluations among East Asian exporters, Chinese leaders have consistently declared their resolve to maintain the value of the Chinese currency. Instead, their 1998 stimulus program represents a reasonable and consistent effort to shift from externally to domestically driven demand, and thus maintain growth.

This policy is coherent and practical, but despite this, still might not succeed. In recent speeches, Zhu Rongji has stressed reaching an 8 percent growth rate in 1998. Slower growth threatens to upset the achievements of recent years by increasing discontent, especially among urban workers, to dangerous levels. Yet relaxing macroeconomic discipline and propping up the economy through the rapid expansion of bank credit would upset recent achievements of enterprise reform by reversing the important shift of bargaining power away from enterprises and toward the banking system. Already, the objective of eliminating boom and bust cycles of reform and growth has been deferred as planners have scrambled to prop up growth during 1998. Yet the measures they have taken have failed to prevent the growth rate from sliding further. Policymakers fear that if growth does begin to accelerate during the second half of 1998, the tensions and contradictions inherent in China's recent restructuring will worsen, and may ultimately prove impossible to contain. ■

"In analyzing the impact of economic reforms on women's lives in China, the government would evidently prefer to discuss its achievements in promoting gender equality and not the chronic discrimination problems that remain. At the other end of the spectrum, Western feminist discourse on China often presents an alarming portrait, replete with stark statistics on the skewed male-female birth ratio, domestic violence, and increased trafficking in women." Exactly how far have women in China come? And how far will Beijing let them go?

Holding Up Half the Sky: Women in China

SUSAN PERRY

As the members of Gao Yinxian's family prepare to take a family photograph, thousands of years of Chinese culture are evident in the seating arrangements. Gao, whose husband has died, is the family's oldest member; she is seated in the middle. Her eldest son, who positions everyone for the photograph, is seated to her right, and her first grandson is to her left. Gao's daughter-in-law and granddaughters remain standing behind the seated members of the family: they have second-row status. They will not earn the right to be seated until their own sons assume the responsibilities of family leadership.

Although Gao's family lives in a remote corner of Hunan province, these gender dynamics are universal in China. Women have been relegated to second-row status throughout the country's history, with their social standing determined by their reproductive role and the clout wielded by their husbands and sons. Yet the last 50 years have seen the role of women in China change more than during the last 5,000 years. These changes result from a variety of factors, the most important of which have been the modernization of Chinese society and the 1949 Communist revolution. Women have moved out of the home and into agrarian and industrial production—and into the professional spheres traditionally reserved for men. In doing so, they have been both assisted by the government and hampered by recent economic reforms.

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While women have benefited from an increasing array of new opportunities, their liberation remains incomplete. Since 1990 there has been a noticeable nationwide slowdown in the move toward gender equality. This stems in large part from the economic reform program that has transformed China from a poor, isolated nation into a burgeoning economic powerhouse. The reforms have widened the gap between the urban and rural populations in terms of access to education, health services, and technology. At the same time, booming private businesses and farming for profit have created a new class of urban and rural elites whose exploitative tendencies recall feudal China. The government now acknowledges that men and women have also been affected differently by the introduction of free market policies.

THE BEGINNING OF CHANGE

Most women rarely ventured beyond their own doorsteps in imperial China, their feet bound and their lives one of domestic drudgery. They had few possibilities of earning an income aside from household handicraft production and, in extreme cases, prostitution. Marriage was designed to control female labor; the young bride was immediately transferred to her husband's family home, where she assumed domestic and reproductive obligations that lasted until old age.

During the late nineteenth century, foreign incursions into China's coastal cities resulted in their partial industrialization and altered traditional marriage patterns. In the Canton delta, foreigners and Chinese alike owned textile factories employing thousands of young women. Their nimble

hands and good eyesight were essential attributes for silk reeling, which earned them a cash income. Consequently, many of these workers practiced a form of marriage resistance or delayed marriage; they continued working for three years after their wedding, at which point they would move to their husband's village and begin childbearing.

The increasing modernization of urban China, symbolized by the 1919 May 4th Movement and its call for China's political, social, and cultural transformation, created new opportunities; schools and universities were founded to train female students as teachers, social workers, nurses, doctors, activists, and politicians. The nascent urban communist movement gained considerable female support because it called for a change in the traditional Confucian gender relations that relegated women to a subservient existence. Beginning in the late 1920s, the Chinese Communist Party promoted liberal marriage laws in its peasant base areas, which generated support for the movement among rural women. With the 1949 Communist revolution, both urban and rural women were expected to participate fully in the socioeconomic transformation of society. Because Marxism emphasized class as the agent for change, however, Chinese women were encouraged to enter the workforce to gain their liberation. They were mobilized to contribute to socialist construction, rather than fight for gender equality.

The upheavals of the Cultural Revolution between 1966 and 1976 made the majority of Chinese women eager to embrace Deng Xiaoping's brand of "market socialism" in 1978. Yet it was during the Cultural Revolution that many women came to the forefront of political decision making. During this period femininity was criticized as a "petty bourgeois characteristic." Female Communist Party members were expected to be militant and ambitious. Shrill but effective political propaganda emanating from Chairman Mao Zedong's wife, Jiang Qing, helped double the number of women in local, provincial, and national government. Later, many of these women admitted that they had felt compelled to serve the Chinese Communist Party and had entered politics with little enthusiasm.

Today 14 percent of the Communist Party's membership is female, but only 7.5 percent of the Central Committee is made up of women. Female deputies constitute 21 percent of the National People's Congress, but only 9 percent of its powerful Stand-

ing Committee. Three female ministers have been appointed to the State Council, the country's main administrative body; they represent 7 percent of all ministers, commensurate with the world average.

The most influential female minister is undoubtedly Wu Yi, who heads China's Ministry of Foreign Trade and Economic Cooperation. She has reached the highest echelon of political power because of her competence and ability to weather political storms. While she might serve as an example to younger women working their way up through middle-level management and government positions in China, overall interest in politics appears to be waning. Many urban professional women appear unwilling to make the necessary sacrifices to climb the political ladder when their time could be better spent making money.

GENDER ECONOMICS

For Chinese women this is a time of opportunity and exploitation; those with a good education or strong motivation are most likely to succeed. Women managers have proved to be extremely effective at running large and small-scale enterprises in the new market economy. A recent study by Ameri-

can and Chinese scholars has shown that they score the same level of managerial motivation as male colleagues in organizational behavior tests, especially on the desire to exercise power and stand out from the group. Opportunities fostered by economic reform and the government's one-child policy, which effectively limits women's child-care responsibilities, have clearly had a positive impact on their managerial motivation. These women form an elite class, set apart from the masses by their university education and professional experience.

At the other extreme are women who work on the assembly line. China's export drive during the 1990s has been dominated by goods traditionally produced by female workers. In southern China women make up the bulk of the labor force in light manufacturing—especially in textiles, which is one of the country's major exports. Many of these workers are young peasants who have fled agrarian underemployment for cash jobs and a bit of excitement in the cities and towns. In the southern city of Shenzhen, for example, women make up one-half the migrant workforce.

Some of these women will return to the countryside with considerable savings. Nearly 50,000 women who have returned to their villages in

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Guangdong province are now the owners of individual or private businesses. According to one study published in China, "when [women] return to the village, not only has their appearance changed but they have also become stronger in character, are no longer afraid of going out in public, are more poised and independent. They have a relatively stronger sense of business and affairs."

Businesses created by the returning women workers form the backbone of the expanding private sector. Throughout China, women account for approximately one-third of the 14 million self-employed rural individuals engaged in commerce and service trades. In the villages, female employers favor female workers for services and light industrial production because, as one woman factory owner noted, they are "obedient, detail-oriented, and do not get into fights." They are also cheaper, earning less than 77 percent of the pay given to men doing the same work. Like their great-grandmothers in the textile mills at the turn of the century, these young peasant workers are a malleable workforce, with few dependents and a willingness to work long hours for low wages.

The new private sector frequently denies women health benefits and maternity leave. Working conditions are unsafe, since national and provincial safety standards are not enforced. In 1992, for example, dozens of women were killed when a fire broke out in their Guangdong toy factory; windows had been barred and doors locked to prevent them from leaving before their 12- to 15-hour day was over.

Women working in the shrinking state sector still receive health services and three months guaranteed maternity leave. Nonetheless, unequal pay and fewer chances for promotion are also chronic in this sector; women workers are perceived as less reliable than their male colleagues because of their household responsibilities. This perception is misguided, since urban Chinese men are far more likely to share household and child-care tasks with their wives than their American counterparts; according to one official study, men in the city of Shanghai perform up to 80 percent of household and child-care chores.

Unemployment is disproportionately high among women. National surveys indicate that the average laid-off worker in China is female (60 percent), works in an industrial enterprise (60 percent), is between the ages of 35 and 45 (67 percent) and has a junior high school level of education. Moreover, Prime Minister Zhu Rongji has targeted the largest

female employer, the state-owned textile sector, for major structural reforms. In the next three years, new jobs must be found for 1.2 million female state textile workers.

The All-China Women's Federation, generally considered a mouthpiece for party policy, has been surprisingly sharp in its criticism of inadequate government programs for the retraining of unemployed women. The "Pioneers Project," run by the federation since 1995, offers professional retraining for nearly half a million women each year; 230,000 were placed in new jobs in 1997. Many of these women move into the service sector, seeking employment in fields as varied as hairdressing and computer programming. Economic security is considered so vital in today's rapidly changing social climate that several female college graduates interviewed for this article claimed that taxi driving and prostitution—the old stand-by in times of extreme duress—were the only jobs that would guarantee them a high cash income and no layoffs.

"FEMINIZED" AGRICULTURE

Nearly 80 percent of China's female population lives in the countryside, where gender equality has been slow to develop. The launching of the household responsibility system in the early 1980s as part of China's reform program has helped maintain rural gender inequality. The system disbanded agrarian collectives and allowed peasant families to grow crops both for themselves and for the state. In many respects, this policy has reinforced the traditional social structure, which also relies on female labor. Women continue the Confucian tradition of "marrying out": moving into their husband's household after marriage, where their status remains that of a secondary family member even after the birth of their first son.

With the integration of women into the agrarian workforce, all but elderly women and very young girls bear the burdens of farm work, child rearing, and domestic chores. Moreover, with the increase in migration to urban areas by men and young women, middle-aged married women have taken over the bulk of farm work in all but the poorest areas, resulting in a "feminization" of agriculture. The Chinese government estimates that women shoulder between 40 and 60 percent of the workload in the fields, while some Chinese scholars believe that women now perform between 70 and 80 percent of all rural work.

The feminization of agriculture may, in the long run, adversely affect traditional patriarchal values.

Many women who become the heads of their household when their husbands depart as migrant laborers often retain their position once their husbands return.

WOMEN AND THE STATE

The government's one-child campaign is a long-standing example of effective state intervention in the lives of Chinese women. Introduced on a broad scale in 1980, this nationwide campaign has attempted to reduce China's galloping population growth by restricting couples to only one child. The government's draconian measures appear to have lowered fertility in urban areas. Women who become pregnant a second time must pay a substantial fine; risk losing their employment, housing, or health benefits; and may be required to undergo forced abortion or sterilization. Their husbands may also be penalized at work. These potential sticks, along with the carrots of pay bonuses and promotion eligibility that accrue to one-child families, have altered fertility behavior to the extent that the majority of city couples willingly have only one child.¹

Although the campaign has altered fertility behavior, it has done little to educate urban women about their sexual identity. Despite the diversity of new material on sex-related issues and a great deal more discussion on the subject in the 1980s and 1990s, the dominant discourse on female sexuality still promotes women's subordination as a natural condition of their existence. This discourse is reinforced by the policies used in promoting the one-child campaign. Nonetheless, Chinese publishers have recently purchased translation rights to classic self-help books, such as *Our Bodies, Ourselves* (minus the American edition's sections on lesbianism and masturbation) or psychologist Françoise Dolto's texts on the family and child rearing, which indicates that they anticipate the growth of a new market.

Rural areas remain removed from elite urban discourse on female sexuality. The convergence of the household responsibility system, urban male migration, and the one-child campaign has put unprecedented pressures on peasant women. The household

responsibility system, designed to encourage peasants to farm for their own profit, places a premium on the number of family members able to farm, while urban male migration and the one-child campaign reduce the number of laborers per household. Peasants obviously oppose both the coercive methods and the logic of the campaign. Couples continue to have more than one child in hopes of producing one or more sons, who are considered essential help with the heavy farm work and in providing a daughter-in-law to take care of parents in their old age. The exception to this trend occurs when peasant women seek employment in rural industries; since hiring priority is given to women with only one child, these positions have become a major family planning incentive.

Overall, peasant couples have proved adept at managing the economic penalties imposed on families with more than one child. Nonetheless, the psychological costs incurred by rural women are inordinately high. The All-China Women's Federation has publicly condemned family violence against women because of the birth of unwanted baby girls, the use of ultrasound to "select" a child's sex, and female infanticide. Peasants have also chosen more benign methods to circumvent the one-child policy, such as not registering the birth of a female. Without a birth certificate, however, the hundreds of thousands of unregistered girls born annually will be unable to receive state health care, enroll in school, or vote as adults.

Despite a renewed drive to limit births in 1992, the Chinese government, because of widespread peasant discontent, has had to officially sanction in rural areas the birth of a second child in cases where the first child was female. The government also tolerates the small-scale, peaceful demonstrations that occur with increasing frequency in front of the gates to the State Family Planning Commission. In private, many educated Chinese women bluntly question how much state coercion is legitimate in trying to arrest population growth, and they criticize the government's heavy-handed methods.

Studies by Chinese scholars show that female education is the single most important predictor of fertility. China claims that 96.2 percent of its 7- to 11-year-old girls are registered for school. Yet, although education is theoretically available to all regardless of gender, female literacy rates continue to be lower than the national average. Of the 200 million illiterate Chinese, 70 percent are female. Often a woman burdened by farm chores will keep her daughter at home to assist with the multiple

¹The one-child campaign has slowed China's population growth to a gross fertility rate of 2 births per female, while producing a statistical anomaly: China had 118 male births for every 100 female births in 1992. Since most nations produce 105 males for every 100 females born, this warped statistic indicates that 12 percent fewer girls are born in China annually than anywhere else.

workloads. The children of urban migrants are also less likely to be schooled, since enrollment would call attention to their "illegal" residency.

In rural areas, the government has responded to this problem with the "Spring Bud" program, which is designed to put girls back in school by helping with their school fees, including lunch, textbooks, shoes, and eyeglasses. Many adult women have benefited from literacy programs sponsored by nongovernmental organizations or the All-China Women's Federation. Little has been done to provide public schooling for the unregistered children of urban migrants.

At the other end of the spectrum, Chinese women who study through the master's and doctorate degree levels are outnumbered by their male counterparts—in some cases, by as much as ten to one. Professors complain that female graduate students are informed outright that prospective employers are interested only in hiring male graduates in their field. Still, female students are encouraged to pursue graduate work in the sciences, particularly in medicine. China has a higher number of female graduate degrees in engineering and other sciences than the United States.

A NEW IMAGE EMERGING?

Urban popular culture has focused new attention on women's issues. Once taboo subjects, including marital sex, divorce, and domestic violence, are now thoroughly explored in a growing body of women's radio talk shows and magazines, such as the favorite *Jiating* (Family) magazine. According to an official from the All-China Women's Federation, demand for weekly or monthly publications devoted to women's issues is growing. The federation and its branches currently edit 47 periodicals, up from just a handful during the Maoist years.

Television has also moved to accommodate the expanding female viewer market. The extremely popular show *Dajia tan* (Everybody's Talking) pits husbands and wives against one another in a mock trial setting in which they hurl accusations regarding one another's chauvinism, infidelities, and spending habits. The show's high ratings indicate that the topic offers more than entertainment value: Chinese viewers are exploring the boundaries of the "modern couple." Recently, a media partnership of Chinese businesswomen has proposed a television project titled *Women in the World*, a series of documentaries designed to introduce Chinese women to support systems as varied as model French day-care centers or Emily's List,

AT THE GRASS ROOTS

THE MOST NOTABLE TREND in gender relations in China today is not the return of patriarchal traditions, but the sustained support women have begun to extend to one another across urban and rural landscapes. The United Nations Conference on Women, held in Beijing in 1995, was a watershed experience for the development of the women's movement in China. The push toward learning from and networking with women's movements worldwide was the single most important legacy of this extraordinary international gathering.

During the preparatory stages to the conference, slogans such as "connect the rails" with the international women's movement appeared. The government, however, attempted to rein in preparations once officials became aware of the possibility of human rights demonstrations at the accompanying International Forum for Non-Governmental Organizations. The forum was moved 30 miles outside Beijing, to Huairou, and the 47 panels to be presented by Chinese women were screened by the government through "rehearsals."

Nonetheless, many Chinese men and women observed for the first time how nongovernmental organizations function and the role these organizations can play in empowering women. More important, these men and women also managed to convince Chinese officials that the women's movement would not form an independent power base in China and hence was not a threat to the government.

Fresh from this experience, women have begun to explore how best to promote gender equality in China. Because the government has been unwilling to sanction the formation of independent women's associations, activists must find an officially approved umbrella group that is already registered, or strike out on their own to form an unofficial association.

Examples of innovative individual initiative abound. A banner embroidered by over a thousand rural women from the Shanxi area and displayed at the Huairou forum has been sold to benefit Shanxi rural development programs for women. A support group for female migrant workers in Beijing helps these women find jobs in understaffed city hospitals. A successful urban lawyer runs a legal consultation service out of her home to assist battered wives and their children. That so many women are willing to devote their time toward building an ad hoc grassroots women's movement indicates that sustainable gender equality will not be imposed from above, but demanded from below. S. P.

the election fund for women running for political office in the United States.

MAKING THEIR VOICES HEARD

In analyzing the impact of economic reforms on women's lives in China, the government would evidently prefer to discuss its achievements in pro-

moting gender equality and not the chronic discrimination problems that remain. At the other end of the spectrum, Western feminist discourse on China often presents an alarming portrait, replete with stark statistics on the skewed male-female birth ratio, domestic violence, and increased trafficking in women.

In determining how far China has come in terms of real gender equality, Chinese women themselves are likely to focus their attention on the development of pragmatic strategies for improving women's lives locally. Although outright criticism of central government policy is discouraged, women are making their voices heard by using those avenues for dialogue that the government has made available.

According to the State Council, the most pressing problems concerning Chinese women include their legal status, equal access to employment, involvement in politics, and the right to organize and participate in international women's activities. Officially

recognized nongovernmental organizations, along with the growing number of unregistered women's groups, have expanded the limits of debate, bringing in new issues, such as the feminization of poverty and reproductive rights. Their tactics, which encourage respect for national law, enable them to push for enforcement of existing legislation without appearing to threaten political orthodoxy.

Many Chinese activists believe that the seeds for real gender equality were sown at an NGO forum in Huairou during the United Nations 1995 Beijing Women's Conference. Since then a movement that encourages individual initiative has taken shape, with motivated urban and rural women working to assist those who have not benefited from China's economic expansion. Inspired by their own grassroots experience and a growing interaction with women's associations worldwide, these informal women's networks signal the beginning of what may become a modern civil society in China. ■

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BOOK REVIEWS

CHINA IN THE NEXT CENTURY: THE WORLD BANK'S CHINA 2020 REPORTS

REVIEWED BY VACLAV SMIL

FROM A RIGID COMMAND ECONOMY to an innovating, market-based system increasingly integrated into the global economy; from traditional agricultural subsistence to a modern urban-dominated society: these are the two grand transitions that have transformed China since the death of Mao Zedong in 1976. The swiftness of these transitions has drawn extraordinary international attention, and their accomplishments have earned China considerable admiration.

The World Bank's *China 2020* series opens in this adulatory spirit: "Both transitions have been spectacularly successful. China is the fastest-growing economy in the world. . . In two generations it has achieved what took other countries centuries. . . This has been a most remarkable development." True, the next paragraph notes that "every silver lining has a cloud," but the World Bank believes that China can meet the challenges of continued transformation and that it can sustain rapid growth during the first two decades of the new century. This optimism is based on the scores of Chinese and foreign analyses contained in the seven volumes that constitute this report.¹

A reviewer's cliché is called for: anyone seriously interested in Chinese affairs should read this report. Indeed, anyone pondering the world of the early twenty-first century would benefit from at least skimming the series or reading the summary volume. But the report's conclusions should not be left unchallenged: in reading these volumes I was left with a recurrent impression of various degrees of disconnect in the largely excellent job of laying out the facts, presenting trends, and drawing conclusions.

Vaclav Smil, a Current History contributing editor, is a professor of geography at the University of Manitoba. He has written extensively on China. His most recent book is *Energies* (Cambridge, Mass.: MIT Press, 1998).

¹The seven-volume set includes: *China 2020: Development Challenges in the New Century*; *Clear Water, Blue Skies*; *At China's Table, Financing Healthcare*; *Sharing Rising Incomes*; *Old Age Security*; and *China Engaged* (Washington, D.C.: The World Bank, 1998, \$120).

By calling this a largely excellent job I do not mean to suggest that the people who wrote background papers and who shaped the final texts could have used better information. All seven volumes are packed with relevant and useful figures gathered from a range of the latest available sources (including previously unpublished Chinese data) that perhaps only the World Bank could draw on in their entirety. But a reader uninitiated in Chinese affairs remains unaware how questionable, biased, or even fraudulent many of these numbers may be, and someone looking for larger conclusions should be mindful of the fact that they reflect largely orthodox economic thinking with all its inherent biases and weaknesses.

On the day I began writing this review, the Chinese media carried reports that China's State Statistical Bureau had acknowledged more than 60,000 cases of "irregularities" in its reporting of statistics in 1997; 57 percent of these cases involved deliberate fraud, with local, county, and provincial officials submitting distorted or incomplete figures. Since this is not the first time the bureau has acknowledged such irregularities, the authors of *China 2020* should have made note of this problem, which clearly requires a more circumspect interpretation of many Chinese statistics.

At the same time, the enormous problems facing China forced the World Bank report to acknowledge that "unmet, these challenges could undermine the sustainability of growth" and that "the huge risks that China faces could yet take shine off [its] potential." Still, the report's overall impression, and its final judgment, are upbeat. Economists' infatuation with high growth rates, and their propensity for linear world views ("the next two decades promise more of the same," concludes the summary volume) are the most obvious explanations for the high approval given to China's past performance and for the report's confidence about the country's future.

Given the dubious nature of Chinese statistics, real growth (although undoubtedly still high) has been almost certainly lower than the official figures indicate. And the expectations of near-double-digit growth rates extending into the distant future sounded too good to be true even before Asia's overtouted tiger economies went into a tailspin in

the fall of 1997—a development utterly unexpected by the World Bank.

Critical readers of *China 2020* will need to think more like historians than growth-obsessed economists; world affairs are distinctly nonlinear, and nasty surprises erupt independent of multivariate economic models predicting smoothly rising performance. For those willing to read carefully, to compare and to consider the experience of other large countries, the volumes contain a great deal of valuable information illustrating both the breadth and the depth of China's socioeconomic and environmental problems.

For example, given the focus on high economic growth (which has more than quadrupled average per capita incomes in China since 1978), the report's documentation of the still widespread poverty and enormous urban-rural gap, as well as the traditional disparities between the rich coast and the poor interior, are very revealing. While the incidence of absolute poverty (access to food, shelter, and clothing) has declined considerably, the total number of people living in poverty remains high; according to the Chinese definition, it was about 100 million people in 1993, but when the World Bank's international standard (\$1 a person per day) is used, the total rises to 350 million, or nearly 30 percent of China's population. Both the urban-rural and coastal-interior inequalities have been growing steadily since the beginning of economic reforms in the early 1980s.

While the magnitude of income disparity is greatly influenced by the way the rate is measured, health statistics tell a clearer, and more disturbing, story: average health spending in urban areas is almost four times the mean in the countryside, and the poorest quarter of the rural population accounts for only about 5 percent of all health expenditures. National rates of immunization coverage are fairly high, but in the poorest interior provinces, between 24 and 33 percent of children are not inoculated against polio, diphtheria, and whooping cough, and nearly 50 percent are not protected against measles.

Surprisingly, the volume on China's food prospects, *At China's Table*, is the slimmest in the series (44 pages); it offers concise reviews of the difficulties in establishing China's actual food consumption, the factors that have been driving or

impeding crop production growth, and discussions of fertilizer use, irrigation, and pricing problems.

Financing Health Care, *Old Age Security*, and *Sharing Rising Incomes* will be eye-openers for anyone who still thinks of China as a country with an admirable social and health security net. With the demise of rural communes (a result of the reform programs), the share of population without any health insurance jumped from less than 30 percent in 1981 to almost 80 percent by 1993. China's pension system faces the burden of a rapidly aging population (mainly because of the one-child policy and increased life expectancy), and the dilemma of rising pension obligations to workers in steadily disappearing state-owned enterprises; voluntary pension insurance schemes for peasants and workers in rural enterprises remain largely experimental.

Titling the volume discussing China's environment *Clear Water, Blue Skies* is an exercise in very wishful thinking. Again, all the essential facts portraying the extent of China's air and water pollution are well presented, but easing these burdens may not be as simple as "harnessing the market to work for the environment"—especially in an economy where real unemployment now stands at 150 million people and where common aspirations are to consume rather than conserve. And *China Engaged* shows how far the country must go to become truly integrated into the global economy (both tariff and nontariff measures are common, and disregard of intellectual property rights remains widespread).

Although its scope is comprehensive, *China 2020* does not address many critical topics. A random list would include, above all, the sensitive issue of the performance and the future of China's population control policies; the widespread ecosystemic degradation (ranging from excessive soil erosion and removal of the remaining stands of virgin forests to the mass slaughter of endangered species for the dining tables of China's nouveaux riches); and the perils of large-scale development of nuclear electricity-generation.

At \$120 the seven paperback volumes are a bit pricey, but they are rich in appropriate tables and graphs and also contain good bibliographies. When approached with a critical eye they provide a highly informative and fairly realistic portrait of China in transition, a compendium more valuable than any single recent book on China's economy. ■

FOUR MONTHS IN REVIEW

April • May • June • July 1998

INTERNATIONAL

Ethiopian-Eritrean Conflict

- June 1—The Voice of America reports that fighting broke out 2 days ago between Eritrea and Ethiopia in a disputed border area near the town of Badame, Ethiopia; the dispute began in early May when Eritrea sent troops into Badame in response to a clash between an Eritrean patrol and Ethiopian police.
- June 4—Ethiopian Prime Minister Meles Zenawi accepts a peace plan proposed by the United States and Rwanda that would end the escalating border conflict; there is no immediate response from Eritrea.
- June 5—Two Ethiopian warplanes bomb an air force base outside Asmara and are then shot down by Eritrean anti-aircraft fire; Ethiopia's foreign ministry says the bombing was in retaliation for an Eritrean attack today on Mekele, outside Addis Ababa, that killed 5 Ethiopians.
- June 10—New fighting breaks out near the Red Sea port of Assab, Ethiopia, which had not previously been disputed by Eritrea; Assab is a strategically important port with a major oil refinery.
- July 31—The Addis Tribune reports that the Organization of African Unity has said it will hold "consultations" on the dispute between Ethiopia and Eritrea on August 2 and 3 in Ouagadougou, Burkina Faso.

European Union

- May 13—The European Parliament agrees to phase out almost all tobacco advertising in EU countries by 2006.
- June 8—Meeting in Luxembourg, European fishing officials agree to ban drift-net fishing in the Atlantic and the Mediterranean beginning January 1, 2002; the nets will still be allowed in the Baltic for salmon fishing; opponents of the nets contend that they kill thousands of seabirds, seals, dolphins, and whales.
- June 30—The EU announces tough new anti-air pollution rules that include a near-total ban on leaded gasoline; the new standards are intended to reduce by up to 70% the pollutants in car emissions.

Group of Eight

- May 17—In Birmingham, England, on the last day of the annual summit meeting of the world's 7 leading industrial democracies, Russia is formally made a member; Russia can be excluded from some G8 meetings, especially those relating to global finance.

International Criminal Tribunal for Rwanda

- May 1—In Arusha, Tanzania, former Rwandan Prime Minister Jean Kambanda pleads guilty to tribunal charges that he orchestrated the massacre of thousands of Tutsi and moderate Hutu; the tribunal was established by the UN to prosecute those responsible for the 1994 murder of more than 500,000 Tutsi and moderate Hutu in Rwanda; this is the tribunal's 1st conviction since it was formed 3 years ago.

International Criminal Tribunal on War Crimes in the Former Yugoslavia

- May 8—The tribunal says it has withdrawn charges against 14 Bosnian Serbs in order to focus its energies on prosecuting higher-ranking officials and people suspected of exceptionally brutal crimes; the 14 had been charged with offenses at the Keraterm and Omarska prison camps in northwestern Bosnia.

- June 29—Slavko Dokmanovic, the Serb former mayor of Vukovar, Croatia, whose war crimes trial ended 4 days ago, is found dead in his cell in The Hague; he apparently hung himself late last night; a verdict was due July 7 on Dokmanovic's role in a massacre of more than 200 people in Vukovar after Serb forces captured the city in November 1991.

International Monetary Fund

- July 13—The IMF announces that in order to loan Russia \$11.2 billion this year and a possible \$2.6 billion next year, it must borrow funds from its wealthiest members; the loans, to be derived from the fund's backup credit line from 11 of the largest industrialized nations, will deplete its main financing pool.

South Asian Association for Regional Cooperation

- July 29—At the 7-nation association's annual summit, in Colombo, Sri Lanka, Prime Ministers Nawaz Sharif of Pakistan and Atal Bihari Vajpayee of India meet for the 1st time since their countries conducted rival nuclear tests in May; the 2 tentatively agree to resume talks on the contested state of Kashmir.

Summit of the Americas

- April 19—At the 2d Summit of the Americas, in Santiago, Chile, leaders of 34 Western Hemisphere countries sign a joint declaration on social action and free trade; the leaders laid out measures to reduce poverty, improve education, expand democracy and human rights, and fight drug trafficking; they also agreed to work toward a hemisphere-wide free trade accord by 2005.

United Nations

- April 6—At the annual meeting of the UN Commission on Human Rights in Geneva, special investigator Bacre Waly Ndiaye releases a report that accuses the US of arbitrary and racist use of the death penalty.
- April 21—The Commission on Human Rights votes, 19 to 16, with 18 countries abstaining, against a US-sponsored resolution rebuking Cuba for its human rights abuses.
- May 13—Former Norwegian Prime Minister Gro Harlem Brundtland is confirmed as the new director general of the World Health Organization.
- June 6—The Security Council issues a resolution urging India and Pakistan to abandon their nuclear weapons programs and denying them official status as nuclear states; last month India and then Pakistan conducted nuclear tests.
- June 10—The General Assembly concludes a special session on the world drug problem; the 150 participating countries pledged better cooperation and new efforts at reducing demand and developing alternatives for farmers who produce drug crops.
- July 7—The General Assembly votes, 124 to 4 (with 10 abstentions and 36 countries not present), to give the Palestinian Authority "super-observer" status; the PA will have the right to participate in General Assembly debates, cosponsor resolutions on Middle East issues, and take part in UN conferences and meetings; it will not have the right to vote in the General Assembly.
- July 17—In Rome, representatives of 160 countries attending a 5-week conference approve by consensus a treaty creating an international court to prosecute war criminals; 60 countries

must ratify the treaty before the court can begin operating, the US, China, and Israel are among the countries that say they will not approve the treaty

AFGHANISTAN

April 17—In Kabul, leaders of the ruling Islamic fundamentalist Taliban and the opposition alliance of General Abdul Rashid Dostum agree to a cease-fire, talks, and an exchange of prisoners; the accord was brokered by the US representative to the UN, Bill Richardson; the Taliban have ruled the country since taking Kabul in September 1996

May 3—Peace talks break down and are "suspended indefinitely" after the Taliban accuse UN mediators of favoring the opposition alliance; the Taliban also refuse to lift a blockade of the central region of Hazarajat, where tens of thousands of people face starvation

June 16—The Taliban close more than 100 private girls schools, including many run by international aid groups; the Taliban have outlawed education and careers for women

June 30—The Taliban order all aid organizations to relocate to an isolated hostel outside Kabul, with no water or power, within a month; representatives from some 30 foreign NGOs threaten to stop their work instead of complying with the measure.

July 19—Taliban authorities order private foreign aid agencies to cease operations; the Taliban have been attempting to gain greater control over relief agencies and require their workers to adhere to strict Islamic law

ALBANIA

June 4—Prime Minister Fatos Nano calls on NATO to deploy troops along the border between Albania and the Serbian province of Kosovo; he says the troops are needed to keep Serbian army forces from crossing the border in their offensive against ethnic Albanian separatists in Kosovo; thousands of refugees have entered Albania from the secessionist province in the last several days

June 17—President Rexhep Mejdani demands that Serbia call off its offensive in Kosovo; 3 people have been killed since yesterday by Serbian forces firing across Kosovo's border into Albania.

July 13—UN Under Secretary General for Disarmament Affairs Jayantha Dhanapala says the UN has agreed to help Albania's government disarm the country's civilian population, Albanians raided weapons depots in early 1997 after the collapse of several pyramid investment schemes sparked nationwide unrest

ALGERIA

June 28—In a 4th day of rioting in eastern Algeria, police shoot at least 1 person dead, the rioting began when Lounes Matoub, a singer who defended the minority Berber culture and was an outspoken critic of the military-backed government and the militant Islamists fighting it, was killed, he was the latest Algerian artist to fall victim to the 6-year insurgency that has killed tens of thousands of people

ANGOLA

July 30—In the diamond-mining province of Lunda Norte, UN officials report that they have found mass graves containing the bodies of 105 people killed on July 22; the government says guerrillas from the National Union for the Total Independence of Angola (UNITA) carried out the killings, UNITA, which signed a peace accord with the government in 1994, blames "diamond gangs" operating in the area.

ARGENTINA

April 13—A local parliament commission in Tucumán province suspends Governor Antonio Bussi from his post for 60 days for

failing to report a Swiss bank account; Bussi, a general who has been accused of committing human rights abuses while administering Tucumán for the military junta that ruled Argentina from 1976 to 1983, was elected in 1995

May 15—Foreign Minister Guido Di Tella says Argentina will remove 1 of its 2 remaining diplomats in Teheran over "potential but very significant evidence" of Iranian involvement in the 1992 bombing of the Israeli embassy in Buenos Aires and the 1994 bombing of the city's main Jewish community center; in the past few days Argentine authorities have arrested 8 Iranian residents and expelled 7 of Iran's 8 embassy employees in connection with the case, 114 people were killed in the bombings

June 9—Authorities detain former President Jorge Rafael Videla, the leader of the 1976–1983 military junta, on charges of having ordered children kidnapped and illegally adopted by military families while in power, Videla was sentenced to life in prison in 1987 for human rights abuses but pardoned in 1990 by President Carlos Menem.

June 17—Argentina departs to Croatia war crimes suspect Dinko Sakic; Sakic ran a concentration camp at Jasenovac, Croatia, from 1942 to 1944, when the country was under fascist rule; Croatia estimates that 85,000 Serbs, Gypsies, Jews, and Communist partisans were killed at the camp; Croatia requested Sakic's extradition earlier this month.

ARMENIA

April 1—With 59.3% of the vote, Prime Minister Robert Kocharian is declared the winner of yesterday's presidential runoff election; Karen Demirchian, a former Soviet Communist leader, took 40.7%

April 10—Kocharian appoints Armen Darbinian, Armenia's finance and economy minister since May 1997, prime minister

AUSTRALIA

June 13—Pauline Hanson's One Nation Party wins 23% of the vote and 10 of 89 seats in parliamentary elections held today in Queensland, marking the 1st time since the 1960s that a party standing openly for discrimination against nonwhites has entered a parliament in Australia.

BELGIUM

April 23—Interior Minister Johan Vande Lanotte and Justice Minister Stefaan De Clerck resign to take responsibility for the brief escape from prison today of Marc Dutroux, who is accused of kidnapping and sexually abusing 6 young girls and killing 4 of them in a case that shook the nation after his arrest in 1996

April 28—Prime Minister Jean-Luc Dehaene's government survives a parliamentary no-confidence motion.

May 24—The government and opposition parties agree to overhaul the police and justice system; a unified federal police force and a single district force will replace the national gendarmerie and municipal police, and an independent high council will be created to supervise the legal system and appoint officials.

BHUTAN

July 12—The New York Times reports that late last month Jigme Syngye Wangchuck, Bhutan's king, dismissed an appointed cabinet and instructed the National Assembly to elect a new one; in another change, the assembly will now have the power to demand the king's abdication

BOLIVIA

April 8—Police officers and soldiers clear roadblocks that had stranded trucks and buses for nearly a week in the Chaparé, a

major cocaine-producing region in the center of the country, coca leaf farmers had set up the roadblocks to protest the government's coca leaf eradication efforts and to demand development projects for the region; at least 4 people died in violence over the course of the week.

June 27—*The New York Times* reports that 9 ambushes of Bolivian police by coca growers since April 2 have left 3 policemen dead and 15 wounded; coca grower union leaders say 12 growers have died in confrontations with security forces in recent months (the government says only 2 have died); clashes have become more frequent since President Hugo Banzer Suárez pledged in January to wipe out illegal coca production in Bolivia by 2002.

BOSNIA AND HERZEGOVINA

April 8—NATO-led peacekeeping troops in the town of Prijedor arrest Miroslav Kvocka and Mladen Radic, Bosnian Serb war crimes suspects and close allies of wartime Bosnian Serb leader Radovan Karadzic; the 2 are accused of running a detention camp in the town of Omarska, outside Prijedor, where Muslim and Croat prisoners were executed during the Bosnian war.

April 24—*The New York Times* reports that the Western countries involved in the peacekeeping mission in Bosnia are setting up a press-control panel, the Intermediate Media Standards and Licensing Commission; the panel will have the power to close radio and TV stations and punish newspapers whose propaganda it finds to be undermining the peace or tainting the debate leading up to national elections in September.

Croats riot in the western town of Drvar to protest the return of Serb refugees; 14 people, including the town's Serb mayor, are injured, and a UN police station and other buildings are burned, earlier this month an elderly Serb couple who had returned to their prewar home in Drvar were killed.

April 26—A hand grenade explosion in Svyetleca, 35 miles northwest of Tuzla, injures 7 Serbs.

May 12—War crimes investigators discover mass graves in Kamernica, in eastern Bosnia; the bodies are thought to be those of some of the 7,500 Muslim men massacred by Serb forces at Srebrenica in 1995, the worst war crime in Europe since World War II, investigators believe the bodies were originally buried near the execution sites, then exhumed and reburied in 10 or more places to conceal the evidence.

June 4—The US State Department says that the US has suspended part of the so-called Trum and Equip military aid program for Bosnia because the country's Muslims and Croats refuse to cooperate on even minor aspects of joint security.

BRAZIL

April 29—The government says it will set aside 62 million acres of Amazon rain forest for conservation, tripling the area of forest it now protects, the program is to be carried out with assistance from the World Bank and the World Wildlife Fund International.

BURMA

April 8—*The New York Times* reports that the government has decided to bar Bill Richardson, the US ambassador to the UN, from visiting Burma during an upcoming visit to the region; Burmese officials have been barred from entering the US since October 1996; the ban was put in place after the ruling junta ordered the mass arrests of members of the National League for Democracy.

April 21—Dissidents report that the military government has sentenced a prominent opposition leader, San San, to 25 years in prison for attempting "to create instability and unrest in the country."

April 29—A student organization, the All Burma Students Democratic Front, says 2 of its members have been sentenced

to death for trying to distribute a letter about human rights abuses to a UN envoy; the government says the 2, Ko Thein and Khin Hlaing, committed explosives and sabotage violations.

July 24—For the 3d time this month, military officials block National League for Democracy leader Daw Aung San Suu Kyi, Burma's leading dissident, from traveling to meet members of her opposition party.

July 28—Meeting in Manila, foreign ministers from the US, Japan, and 5 other countries call on Burma's military junta to end its standoff with Suu Kyi, who in protest has refused to leave her car since being stopped 4 days ago; the car was reported today to have been surrounded by soldiers and police officers.

July 30—The government says it has forcibly removed Suu Kyi from her car, ending her 5-day sit-in, and returned her to Rangoon; the government maintains it acted on her doctors' advice.

BURUNDI

June 21—The Tutsi-led government and Hutu rebels agree to a truce and new talks; more than 150,000 people have died since fighting between the 2 groups began in October 1993 when the country's 1st elected Hutu president was killed by Tutsi forces.

CAMBODIA

April 6—UN envoy Thomas Hammarberg reports at the annual session of the UN Human Rights Commission in Geneva that the government of Cambodian leader Hun Sen, who seized power in a coup last July, has failed to investigate suspected political killings carried out since the coup.

April 15—Former Khmer Rouge leader Pol Pot dies, reportedly of heart failure, in a rebel camp near the Thai border; an estimated 1.5 million people—nearly a quarter of Cambodia's population—were killed in the attempt by the Khmer Rouge, a xenophobic Communist guerrilla force that ruled the country from 1975 to 1979, to create a utopian society, Pol Pot's followers turned on him and put him under house arrest last year.

April 19—The government says 21 people were killed and at least 15 wounded in a suspected Khmer Rouge attack on a fishing village yesterday.

May 1—Heavy fighting between government troops and Khmer Rouge guerrillas sends about 30,000 refugees to the Thai border and 7,500 others to a camp in Cambodia; several days ago the UN High Commissioner for Refugees and the Thai and Cambodian governments agreed to repatriate 64,000 Cambodian refugees from Thailand so they could vote in Cambodia's elections in July.

May 12—The government says its troops have seized the last Khmer Rouge positions along the Thai border.

May 15—Talks aimed at reintegrating into the army troops loyal to Prince Norodom Ranariddh, the co-prime minister ousted by Hun Sen last July, break down; afterward, Ranariddh returns to Thailand; the talks were also intended to address the prince's candidacy in elections scheduled for July 26.

June 5—More than 1,000 Khmer Rouge guerrillas say they will join Cambodia's army, other remnants of the Khmer Rouge are believed to be hiding in the jungle along the Thai border with their leader, Ta Mok.

July 28—With only a small fraction of the vote count released, Hun Sen's Cambodian People's Party (CPP) claims victory in national elections held 2 days ago, saying it will win 65 to 67 of the 122 seats in parliament—short of the 2/3 needed to form a government; opposition leaders Prince Ranariddh and Sam Rainsy accuse Hun Sen of fraud and say they will boycott the parliament; some independent observers have said the voting appeared relatively free.

CHINA

April 4—Police in Beijing release Xu Wenli, a leading dissident, after detaining him overnight, the police seized a computer and other materials from Xu's home in Beijing.

A Hong Kong-based rights group says that dissident Shen Liangqing has been sentenced to 2 years in a labor camp for his contacts with human rights groups and reporters outside China; Shen had been detained since February.

The government expels Xiaorong Li, a researcher at the University of Maryland and a vice chairwoman of the New York-based group Human Rights in China; Li was visiting her parents in Sichuan.

April 16—About 500 retired workers block trains linking Dalian and Harbin to protest a state metal factory's failure to pay wages for 6 months.

April 19—Wang Dan, a leader of the 1989 Tiananmen Square democracy movement, arrives in Detroit after being released by the government on "medical parole"; Wang had been serving an 11-year sentence for subversion.

April 23—Authorities in Beijing deport Frank Woo, a Chinese-American pro-democracy activist, to the US; Woo was seized on his arrival in Beijing.

May 9—James Sasser, the US ambassador to China, confirms that China has released Zeng Jingmu, an elderly Catholic bishop who had been jailed for refusing to submit to the authority of the government-sponsored church; Zeng has spent nearly 25 years in prison for openly declaring his allegiance to the Vatican, the government-backed Catholic church does not recognize the pope's authority.

May 21—Qin Yongmin, a leading human rights advocate in Wuhan, says he was released this morning after being detained for 24 hours and that his fax machine, papers, and other materials were taken by the police.

May 27—The *New York Times* reports that the Democratic Party and other pro-democracy parties won 55% of the vote and 18 of the 20 directly elected seats in legislative elections held 3 days ago in Hong Kong, the remaining 40 seats in the Legislative Council are chosen by indirect means favoring business interests and Beijing; the elections were the 1st since China regained control of the territory last July.

June 4—More than 10,000 people gather in Victoria Park in Hong Kong for a candlelight vigil honoring those killed in the Chinese military's crackdown on pro-democracy protesters in Tiananmen Square on June 3 and 4, 1989.

June 7—The *New York Times* reports that Bishop Zhang Weizhu of China's underground Catholic church was arrested on May 31 while traveling to his home in Xianxian, in Hebei province.

June 20—A group of 55 dissidents from around the country faxes a letter to the American embassy urging US President Bill Clinton to meet with dissident Xu Wenli during his impending visit to China.

June 25—The Reuters news agency publishes an open letter by Zhao Ziyang urging China's leaders to seize the opportunity presented by Clinton's visit and admit that the Tiananmen Square crackdown was both wrong and a political mistake, Zhao was ousted as Communist Party general secretary at the time of the crackdown and has been under house arrest since 1989.

Clinton arrives in Xian for a 9-day visit to China.

The dissident Yang Hai is detained by police in Xian, yesterday at least 2 other Xian dissidents were also reportedly detained.

June 27—President Jiang Zemin receives President Clinton in a military ceremony at Tiananmen Square.

June 29—In Beijing, William Daley, the US commerce secretary, and Zeng Peiyuan, chairman of the China State Planning Commission, announce \$1.6 billion in new trade and investment deals between the 2 countries.

Police detain dissident Wang Youcai at his home in Hangzhou; Wang, a student leader at Tiananmen in 1989, tried 3 days ago to register his China Democracy Party, an opposition party, with provincial authorities but was refused, he is at least the 6th dissident detained since President Clinton arrived in China.

July 10—Police arrest 9 dissidents who attempted to establish the China Democracy Party during Clinton's visit.

July 13—Cheng Fan, 1 of the dissidents arrested 3 days ago, is released; 4 others have also been released.

July 17—Police arrest Mao Guoliang, a teacher in Anji and a member of the China Democracy Party, without explanation.

July 22—Jiang tells top military commanders that the military must give up its multi-billion dollar commercial empire and regain its "purity"; Jiang said ending the military's role in business is the only way to stop the current epidemic of smuggling.

July 23—Wang Donghai, 1 of the 9 dissidents arrested July 10 for trying to register the China Democracy Party, is released but ordered not to leave his home in Hangzhou without police permission.

COLOMBIA

April 9—Leftist Revolutionary Armed Forces of Colombia (FARC) guerrillas release an elderly Colombian man near San Juanito, 30 miles southeast of Bogotá, after clashing with army troops in the area; the man had been seized along with 4 Americans and an Italian on March 23, the others are still being held, except for 1 American, who escaped soon after being taken; Colombia leads the world in kidnappings, with 4 a day on average.

April 19—Eduardo Umana Mendoza, a leading human rights lawyer, is shot and killed in his office in Bogotá.

April 24—FARC guerrillas release an ailing American woman tourist seized a month ago, but do not release 2 remaining Americans.

May 4—Some 200 paramilitary gunmen kill at least 21 people in the village of Puerto Alviria in eastern Colombia.

May 12—Gunmen kill retired General Fernando Landazabal Reyes near his home in Bogotá; Landazabal, a former hard-line defense minister, was an adviser to General Harold Bedoya, a candidate in the May 31 presidential elections.

May 17—Some 50 right-wing paramilitary members take control of 4 working-class neighborhoods in Barrancabermeja, on the Caribbean coast, abduct suspected supporters of left-wing guerrillas, and execute 8 of them in a public square; the abductors then disappear with 42 hostages; 3 are later found dead.

May 19—Thousands of people take part in a nationwide protest against a wave of political violence that has left more than 50 people dead and dozens missing in the last month, no arrests have been made in any of these attacks.

The government says it will disband the military's 20th Intelligence Brigade, which has come under growing international criticism for suspected involvement in political killings of human rights workers and church and political figures; the US recently revoked the visa of General Iván Ramírez, a former commander of the brigade, saying he was engaged in terrorism.

May 31—At least 6 people are killed in violence related to today's presidential elections; in the past 2 days guerrillas have bombed 4 polling stations and abducted 7 election officials.

June 10—The Colombian Red Cross says that at least 41 people have died in pitched battles that broke out May 28 in the densely forested Urabá region in the northwest, the fighting pits FARC guerrillas against the right-wing Peasant Self-Defense Force of Córdoba and Urabá; hundreds of civilians have fled their villages.

June 20—The *New York Times* reports that Colombia has agreed under US pressure to test tebutuuron, a powerful granular

herbicide, in its coca fumigation efforts; Dow AgroSciences, the chemical's manufacturer, strongly opposes such use for health and environmental reasons.

June 21—In a runoff election, voters elect Conservative candidate Andrés Pastrana president; Pastrana, a former mayor of Bogotá, defeated Horacio Serpa of the Liberal Party by 50.3% of the vote to 46.3% for Serpa; it was Pastrana who 1st accused outgoing President Ernesto Samper, a Liberal, of accepting campaign money from drug dealers in 1994.

July 9—President-elect Pastrana unexpectedly meets with FARC guerrilla leaders; he pledges to remove police from 5 municipalities and start peace negotiations with rebels within 90 days of taking office; Pastrana is the 1st president to talk directly with rebel leaders.

July 27—Leaders of Colombia's main right-wing paramilitary groups say they will join peace talks to end the country's 34-year civil war.

CONGO

April 6—A coalition of 7 human rights groups criticizes the government for banning the Zairian Association of Human Rights; the Human Rights Now Committee, which includes the banned group, recently accused the government of intimidating and threatening human rights activists.

July 1—Congo's most prominent opposition leader, Étienne Tshisekedi, is released from internal exile and returns to Kinshasa, the capital; Tshisekedi was arrested in February for violating a ban on political activity and was banished to his home village of Mupompa.

CROATIA

June 26—The Hina news agency reports that the remains of 938 people have been exhumed since April from a mass grave at Vukovar, in the border region of Eastern Slavonia, an estimated 1,200 victims were buried there after Serb forces captured the town in 1991.

CUBA

July 12—The *New York Times* reports that Cuban exile Luis Posada Carriles claimed responsibility in recent interviews with the paper for a wave of bombings in Cuba last year; Posada served almost 9 years in prison in Venezuela for the 1976 bombing of a Cubana Airlines flight from Barbados.

July 16—US President Bill Clinton waives for a 5th 6-month period sanctions that could be imposed under the 1996 Helms-Burton Act; the law penalizes foreign companies making use of property seized by the Cuban government after the 1959 revolution.

CZECH REPUBLIC

July 17—President Václav Havel names Social Democrat leader Miloš Zeman prime minister; the Social Democrats won parliamentary elections last month but fell short of a majority.

DENMARK

May 28—In a referendum, Danish voters approve the Amsterdam Treaty, 55% to 45%; the treaty, if ratified by all 15 EU countries, will authorize the EU to invite Eastern European countries to join, and will also transfer authority over visa and asylum policies to the EU.

ECUADOR

July 12—Jamil Mahaud of the Popular Democracy Party defeats Alvaro Noboa of the Ecuadorian Party of Roldos in a runoff presidential election; Mahaud, the mayor of Quito, took 51% of the vote and Noboa 49%.

EGYPT

April 28—In Cairo, Egyptian President Hosni Mubarak and Israeli Prime Minister Benjamin Netanyahu hold their 1st meeting in a year; Egyptian officials later report that Mubarak has encouraged Netanyahu to accept an American proposal to restart stalled peace talks with the Palestinian Authority.

ETHIOPIA

April 9—The UN World Food Program announces that Ethiopia needs approximately 60,000 tons of food aid for an estimated 800,000 people in the eastern and lowland regions of Tigre and Amhara, which have been devastated by drought and poor harvests.

FRANCE

April 2—A criminal court in Bordeaux finds Maurice Papon, a former regional functionary of the collaborationist Vichy regime, guilty of complicity in Nazi crimes for having turned hundreds of French and foreign-born Jews over to German forces between 1942 and 1944; Papon, who is 87, is to serve 10 years in prison.

A court in Versailles convicts Jean-Marie Le Pen, the leader of the far-right National Front, of assaulting Socialist Party candidate Annette Peulvast during the 1997 general election campaign, strips him of his civil rights, sentences him to 3 months in prison (suspended), and fines him \$3,700.

April 3—A criminal court orders Papon to pay almost \$750,000 in damages and legal fees to the victims and their lawyers.

April 22—Parliament passes a resolution backing French participation in the euro, the common European currency; President Jacques Chirac's Rally for the Republic Party abstained and several leftist parties voted against the motion.

July 17—A special commission orders former Prime Minister Laurent Fabius, now speaker of parliament, to stand trial with 2 other former ministers on charges of manslaughter in the deaths of more than 400 patients who in 1985 received blood contaminated with HIV; the government at the time is accused of having delayed screening blood for HIV until a French-devised test was available; an American test was available but was not used.

GERMANY

April 1—UN special investigator Abdelfattah Amor reports to the UN Commission on Human Rights that German government restraints on the Scientology movement do not amount to persecution.

April 20—An anonymous statement is sent to the Reuters news agency announcing that the Red Army Faction, a leftist German guerrilla organization once seen as Europe's most deadly urban terror group, has disbanded; the statement says the organization's cause is "now history."

April 26—In state elections in Saxony-Anhalt, in eastern Germany, the far-right German People's Union garners 13% of the vote; it is the 1st far-right party to enter a state assembly in postwar Germany.

July 7—Volkswagen A.G. agrees to compensate workers forced into slave labor in its factories during World War II; last month a group of former workers from Hungary threatened to sue for compensation, until today Volkswagen had maintained that compensation was the government's responsibility, since the company had acted under orders from the Nazi government.

GREECE

May 27—Thousands of workers strike nationwide to protest government privatization plans.

June 9—*The New York Times* reports that on June 7 the government arrested the head of the State Committee for Statistics, Yuri Yurkov, and his top deputies; the officials have been charged with taking bribes to underreport the annual production of Russian enterprises, the reduced estimates minimized companies' tax liabilities.

July 17—In St. Petersburg, the remains of Czar Nicholas II and his family are buried at a ceremony attended by Yeltsin.

July 20—The IMF endorses a \$17 billion "emergency rescue plan" for Russia, including \$11.2 billion from the fund and the remainder from the World Bank and Japan; the fund reduces its 1st payment from \$5.6 to \$4.8 billion in an effort to force the Russian parliament to enact economic austerity measures.

July 31—Yeltsin signs a series of austerity measures adopted by the Duma, including simplification of the tax code, approval of casino and gaming taxes, and a cut in the tax on profits from 35% to 30%; Anatoly Chubais, the country's chief foreign debt negotiator, later meets with the IMF's deputy managing director, Stanley Fischer, to report on how Russia plans to meet conditions to receive the 2d installment of the IMF loan package—\$4.3 billion—in September.

RWANDA

April 24—In the capital city of Kigali and the regions of Gikongoro, Nyamata, Murambi, and Kibungo, 22 Hutus convicted of genocide and the mass murder of Tutsis and moderate Hutus in 1994 are publicly executed by firing squad. Rwanda's Tutsi-controlled government, acting independently of the International Criminal Tribunal for Rwanda, ignored appeals from the US, the EU, and several human rights organizations to stay the executions on the grounds that the convicts' trials failed to meet international standards of justice.

May 15—The Justice Ministry announces that at Ririmba prison, south of Kigali, some 2,000 Rwandans accused of participating in the 1994 genocide have written statements admitting their involvement in order to avoid execution; under Rwandan law, defendants who confess are eligible for reduced sentences, in this case life in prison instead of execution; more than 125,000 people are awaiting trial in Rwanda in connection with the genocide.

May 28—UN officials report that 3 days ago in northwestern Rwanda, Hutu rebels killed 94 civilians and wounded 67 because they had sought the protection of the country's Tutsi-led army; the government has recently begun a campaign to persuade Hutu in the northwest to deny food, shelter, and money to the rebels.

June 2—A Rwandan court sentences to death 5 Hutu rebels for killing 4 UN human rights monitors in February 1997.

June 6—Rwandan radio reports that a court in the northeastern town of Byumba has convicted 38 people of genocide in the 1994 killings, sentencing 35 to life in prison and 3 to lesser sentences.

SAUDI ARABIA

July 25—*The New York Times* reports that on July 19, Yemeni and Saudi Arabian forces clashed over the disputed island of Duwaila in the Red Sea.

SIERRA LEONE

April 8—Government officials report that hundreds of Sierra Leoneans fleeing to UN refugee camps in Guinea the past several weeks have died from exhaustion; an estimated 50,000 refugees are currently living in the camps; the refugees are from the district of Kono in northwestern Sierra Leone, where rebels have been pillaging and killing; the rebels are remnants of a military junta ousted in March by Nigerian-led peacekeeping

forces, who restored elected civilian President Ahmed Tejan Kabbah to power.

May 12—The private British mercenary force Sandline International and a senior US administration official tell *The New York Times* that Sandline helped carry out the March military operation to oust the junta. Sandline was paid approximately \$10 million by the US and Great Britain to restore President Kabbah to power. Sandline reportedly brought in more than 100 tons of ammunition, mortars, and assault rifles, in violation of a UN arms embargo on Sierra Leone. British Prime Minister Tony Blair has denied the report.

SOMALIA

April 15—Somali gunmen abduct 9 foreign Red Cross workers and 1 local Red Crescent worker during an attack on an airstrip in northern Mogadishu, the capital; the abduction appears to be an effort to disrupt talks today between rival Somali faction leaders to set up a new government in Mogadishu.

April 16—The Red Cross evacuates its remaining staff from Somalia.

April 24—The workers abducted April 15 are freed.

SOUTH AFRICA

April 6—The chief of South Africa's army, Georg Meiring, resigns. Meiring recently falsely reported to President Nelson Mandela that a coup was being planned.

May 8—A court in Cape Town strikes down a blanket amnesty granted to 37 top officials of the African National Congress (ANC) by the Truth and Reconciliation Commission (TRC); in January, the TRC moved to allow a court to determine whether it had exceeded its powers when it granted the amnesty in December 1997.

May 29—The former head of the ANC's anti-apartheid Spear of the Nation guerrilla group, Lieutenant General Siphrwe Nyanda, is named chief of the South African military; Nyanda replaces Meiring.

July 12—*The New York Times* reports that 40 people have died since March in the KwaZulu/Natal city of Richmond, where political violence has erupted between a right-wing white supremacist group, the United Democratic Movement, and the ANC.

SPAIN

May 6—Tomás Caballero, a town councillor in the northern town of Pamplona, is shot and killed outside his home, the Basque separatist guerrilla group ETA (Basque Homeland and Freedom) is suspected in the attack. Caballero would be the 5th local Popular Party politician to be assassinated by the ETA in the last year; the ETA has killed more than 800 people in its 30-year fight for an independent Basque state in northern Spain and southern France.

July 29—A Supreme Court panel sentences former Interior Minister José Barrionuevo and former Director of State Security Rafael Vera to 10 years in prison for kidnapping Segundo Marey, a French furniture dealer mistaken for a Basque terrorist, in 1983, 10 lower-ranking officials also received sentences; the kidnapping was part of a "dirty war" the government waged against Basque separatist guerrillas in the 1980s.

SUDAN

April 20—The government appeals to humanitarian organizations for medicine and food for parts of southern Sudan; 2 days ago, the UN's food operation accused the mainly Arab, Islamic government of deliberately thwarting the UN's effort to provide food for 350,000 people in the south as part of a strategy to weaken the mainly African, Christian insurgency there.

- May 6—Leaders from the government and from the Sudan People's Liberation Army, the southern guerrilla group, end peace talks in Nairobi, both sides agree to allow an internationally supervised plebiscite on self-determination for the southern half of the country; they also agree to meet in 3 months to resume peace talks in Addis Ababa, Ethiopia.
- July 8—The US announces that it will provide \$16 million worth of food relief to southern Sudan; some 2.5 million southern Sudanese are in need of food aid; today's pledge by the US brings total US aid to Sudan to \$75 million.
- July 15—Southern rebels declare a 3-month, "unconditional and unilateral" cease-fire in the southwestern province of Bahr el Ghazal to allow food relief to be distributed; the government agrees to a 1-month truce.

TAJIKISTAN

- May 1—Government forces drive some 200 Muslim rebels out of the capital city of Dushanbe, 20 soldiers were killed and 80 were wounded in clashes 2 days ago; the fighting is believed to have been touched off by the arrest of 3 opposition members earlier in the week.

TURKEY

- April 5—The *New York Times* reports that in recent weeks the Interior Ministry has removed 7 elected mayors it considered subversive; the ousters are part of a secularist campaign against Islamic fundamentalist officials.
- April 10—A bomb explodes at a historic tourist site in Istanbul, wounding 9 people; authorities say they suspect the rebel Kurdistan Workers Party.
- April 21—A state security court in Diyarbakir sentences Istanbul Mayor Recep Tayyip Erdogan, a prominent Islamist, to 10 months in prison for "inciting hatred" by quoting a seemingly divisive folk poem in a speech last year; Erdogan says he will appeal the ruling, which is part of a widening military-led secularist crackdown.
- April 22—Parliament votes to investigate the personal finances of Prime Minister Mesut Yilmaz, who later tells reporters, "It will be a pleasure for me to be investigated."
- April 24—Sukru Karatepe, the mayor of the town of Kayseri, begins serving a 1-year prison sentence for insulting Kemal Ataturk, the founder of the secular Turkish state.
- May 12—Parliament votes to open an inquiry into allegations that Yilmaz improperly awarded a contract for the construction of a new airport in Istanbul.
- June 1—The government returns human rights advocate Esber Yagmurdereli to prison, saying he failed to submit to a medical examination as required under the terms of his release in November; Yagmurdereli last year began serving a 22-year sentence for "spreading separatist propaganda" in a 1991 speech about Turkey's war with Kurdish rebels.

TURKMENISTAN

- April 23—President Saparmurat Niyazov meets with US President Bill Clinton in Washington, the 2 sign an agreement to conduct a US-sponsored study to build a natural gas pipeline running from Turkmenistan to Turkey, bypassing Iran.

UNITED KINGDOM

Northern Ireland

- April 8—An alleged member of the Loyalist Volunteer Force (LVF), a Protestant guerrilla group that favors continued union with Britain, is shot and killed in Derry (Londonderry); the Irish National Liberation Army (INLA), a mainly Catholic, republican guerrilla group, claims responsibility; both organizations are splinter groups that have refused to join a cease-fire being observed by other groups.

- April 10—The Irish and British governments and 8 of Northern Ireland's 10 political parties reach a power-sharing agreement aimed at ending the province's 29-year guerrilla conflict; under the agreement, Protestants and Catholics are to govern jointly in a 108-member National Assembly, which is in turn to cooperate with a new North-South Council of Irish and Northern Irish lawmakers; there will also be a Council of the Isles to bring together representatives of Ireland, Northern Ireland, Scotland, Wales, and England; Ireland is to drop its constitutional claim to Northern Ireland in favor of a pledge that no change in the province's territorial status can take place without majority consent; the agreement, the fruit of negotiations that began in June 1996, will be put to referendums in Northern Ireland and Ireland on May 22.
- April 11—The executive committee of the Ulster Unionist Party (UUP), Northern Ireland's largest political party, votes to back the peace accord.
- May 9—A hard-line group calling itself the Irish Volunteers says that it has broken away from the Irish Republican Army (IRA) and will wage a new war against British rule in Northern Ireland, the group, thought to have 50 to 100 members, is suspected in a recent string of attempted bombings.
- May 10—At a party conference in Dublin, Sinn Fein, the IRA's political wing, approves, nearly unanimously, the recent peace accord; the party also votes to allow its politicians to take seats in the new Northern Ireland assembly that is to be established under the accord.
- May 12—The British government announces a \$520 million aid package to Northern Ireland; the money will be used to encourage investment and improve infrastructure and schools.
- May 23—Official results of yesterday's referendum on the peace accord are released; 71% of voters in Northern Ireland approved the pact, as did 94% of voters in the Irish Republic; turnout in the north was 81%; it is thought that more than half of Protestant voters in the north must have voted yes.
- May 30—Eleven police officers and 3 civilians are wounded in rioting involving Protestant Orange Order marchers and Catholic protesters in a Catholic area of Portadown.
- June 24—A car bomb injures 1 person in the village of Newtownhamilton, near the Irish border, the INLA claims responsibility for the blast.
- June 27—Nearly complete results of elections 2 days ago for the new 108-member Northern Ireland Assembly give David Trimble's UUP 27 seats, John Hume's Social Democratic and Labor Party (SDLP) 24, Ian Paisley's Democratic Unionists 20, Sinn Fein 18, the Alliance Party 6, and the UK Unionists (allied with Paisley's party) 5, smaller parties took the other seats; 80 of the winners support the peace accord and 28, led by Paisley, oppose it, the anti-accord faction requires 30 votes to block implementation of provisions of the agreement.
- July 1—The new assembly convenes and elects Trimble first minister and Seamus Mallon, a Catholic from the SDLP leadership, deputy first minister.
- July 2—British Prime Minister Tony Blair flies to Belfast in an effort to bring calm to Northern Ireland in the wake of the burning of 10 Catholic churches late yesterday and early today, police believe the LVF carried out the attacks.
- July 12—Three young Catholic boys are burned to death in an early morning arson attack on their home in Ballymoney, 40 miles north of Belfast.
- July 13—Tens of thousands of Orange Order Protestants march peacefully in some 500 parades across the province, no violence is reported.

Turks and Caicos Islands

- June 8—Police reportedly fire on a boat carrying 100 Haitian refugees; as many as 30 of those on board drown when the boat capsizes.

(letters, continued from p. 242)

coming into the United States. The government has traditionally gauged the success of its efforts in terms of drug prices and purity on the streets of this country. Increased prices and reduced drug purity indicate reductions in supply, while cheaper, more potent drugs point to increased availability. By these measures, efforts to curtail the flow of foreign drugs have not succeeded. According to the Drug Enforcement Administration, heroin now sells for less than half its 1981 street price, and heroin purity exceeds 70 percent in many cities, compared with only 7 percent in 1981. Cocaine prices have dropped by two-thirds.

The substantial decline in occasional cocaine use in the past decade—even as the drug has become cheaper and more readily available—is a reflection of the power of health concerns in reducing drug demand. The cocaine overdose death of basketball star Len Bias in 1986 marked the turning point in the nation's cocaine epidemic, as people across the country suddenly understood that cocaine can be lethal.

Mr. McDonough also overlooks the fact that hard-core cocaine use has not decreased; indeed, since 1992, actual consumption of both heroin and cocaine has increased while the number of addicts has also risen, according to Office of National Drug Control Policy figures. Americans are spending less on drugs these days because drugs are much cheaper, not because smaller amounts of cocaine and heroin are being consumed. As anti-drug chief McCaffrey notes, "The four million Americans who are chronically addicted to illegal drugs cause enormous damage to themselves and the rest of society." Extensive research and program experience show that drug prevention and treatment are far more cost-effective than interdiction, enforcement, and source country eradication programs in reducing drug abuse (for example, intensive drug treatment of criminal offenders can reduce recidivism by half). The administration—and Congress—should follow the facts and put much more funding into demand reduction.

Mathea Falco is president of Drug Strategies, a nonprofit research institute in Washington, D.C. She served as assistant secretary of state for international narcotics matters from 1977 to 1981.

Peter Zirnltte replies:

Yes, I do fear that United States policymakers want to further militarize drug control efforts in Latin America. To claim my concern is unfounded, however, is to ignore existing evidence, plenty of which should be available to Mr. McDonough by just looking around his office. While his boss, General McCaffrey, routinely eschews use of the "war" metaphor to describe United States anti-drug strategy, he does make an exception for Latin America, where he finds it is "pretty useful." McCaffrey also says he is "uneasy" about the administration's efforts to restrict the use of helicopters it sends to Colombia ostensibly for drug control.

The drug czar's actions speak even louder than his words. Last November, he refused to certify the Defense Department's proposed fiscal 1999 budget because he thought the \$809 million Defense Secretary William Cohen had proposed for fighting illegal drugs was insufficient by \$141 million. Eventually, Defense Department added about \$73 million—nearly 50 percent more than the Office of National Drug Control Policy (ONDCP) plans to spend to place drug coordinators in our nation's middle schools.

Given his concern about getting the facts straight, I'm surprised that Mr. McDonough, in touting ONDCP's commitment to bolstering demand reduction programs, overlooked the most revealing numbers: in fiscal 1995, the year before McCaffrey took over as drug czar, 35 percent of the total United States drug budget went to demand reduction; under the proposed budget for fiscal 1999, 34 percent would be spent on reducing demand, according to the ONDCP's National Drug Control Strategy.

For those of us interested in nurturing recent trends toward more democratic societies and greater respect for human rights in Latin America—while addressing the very real problem of drug abuse at home—it is obvious who keeps banging the wrong drum. I believe most rational people would agree it is time to march to the beat of a different drummer.

Peter Zirnltte is the author of Reluctant Recruits: The U.S. Military and the War on Drugs, published by the Washington Office on Latin America.

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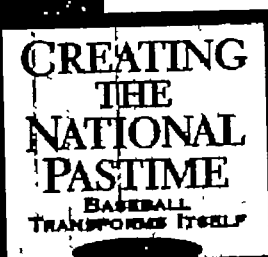
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PERSPECTIVES

Current conventional wisdom holds that democracy will come to China when the economic modernization programs China's Communist rulers have introduced unwittingly lead to it. Twenty years ago the dissident Wei Jingsheng saw democracy springing forth not from these reforms—part of the “four modernizations”—but from another, deeper source. Two decades have not diminished the force of Wei's argument, nor closed the gap that remains between the idea of democracy and the reality in China

DEMOCRACY: THE FIFTH MODERNIZATION

Wei Jingsheng

WHAT IS DEMOCRACY? True democracy means placing all power in the hands of the working people. What is true democracy? It is when the people, acting on their own will, have the right to choose representatives to manage affairs on the people's behalf and in accordance with the will and interests of the people. This alone can be called democracy. Furthermore, the people must have the power to replace these representatives at any time in order to keep them from abusing their powers to oppress the people.

Is this actually possible? The citizens of Europe and the United States enjoy precisely this kind of democracy and can run people like Nixon, de Gaulle, and Tanaka out of office when they wish and can even reinstate them if they so desire. No one can interfere with their democratic rights. In China, however, if a person even comments on the “great helmsman” or the “Great Man peerless in history,” Mao Zedong, who is already dead, the mighty prison gates and all kinds of unimaginable misfortunes await him.

Will the country sink into chaos and anarchy if the people achieve democracy? On the contrary, have not the scandals exposed in the newspapers recently shown that it is precisely due to an absence of de-

mocracy that the dictators, large and small, have caused anarchy? The maintenance of democratic order is an internal problem that the people themselves must solve. It is not something that the privileged overlords need concern themselves with. Besides, they are not really concerned with democracy for the people, but use this as a pretext to deny the people their democratic rights.

Of course, internal problems cannot be solved overnight but must be constantly addressed as part of a long-term process. Mistakes and shortcomings will be inevitable, but these are for us to worry about. They are infinitely better than facing abusive overlords against whom we have no means of redress. Those who worry that democracy will lead to anarchy and chaos are just like those who, following the overthrow of the Qing dynasty, worried that without an emperor, the country would fall into chaos. Their recommendation was: Patiently suffer oppression! For without the weight of oppression, the roofs of your homes might fly off!

To such people I would like to say, with all due respect: We want to be the masters of our own destiny. We need no gods or emperors and we don't believe in saviors of any kind. We want to be masters of our universe; we do not want to serve as mere tools of dictators with personal ambitions for carrying out modernization. We want to modernize the lives of the people. Democracy, freedom, and happiness for all are our sole objectives in carrying out modernization. Without this “Fifth Modernization,” all other modernizations are nothing but a new promise.

Democracy is not merely an inevitable stage of social development as Lenin claimed. In addition

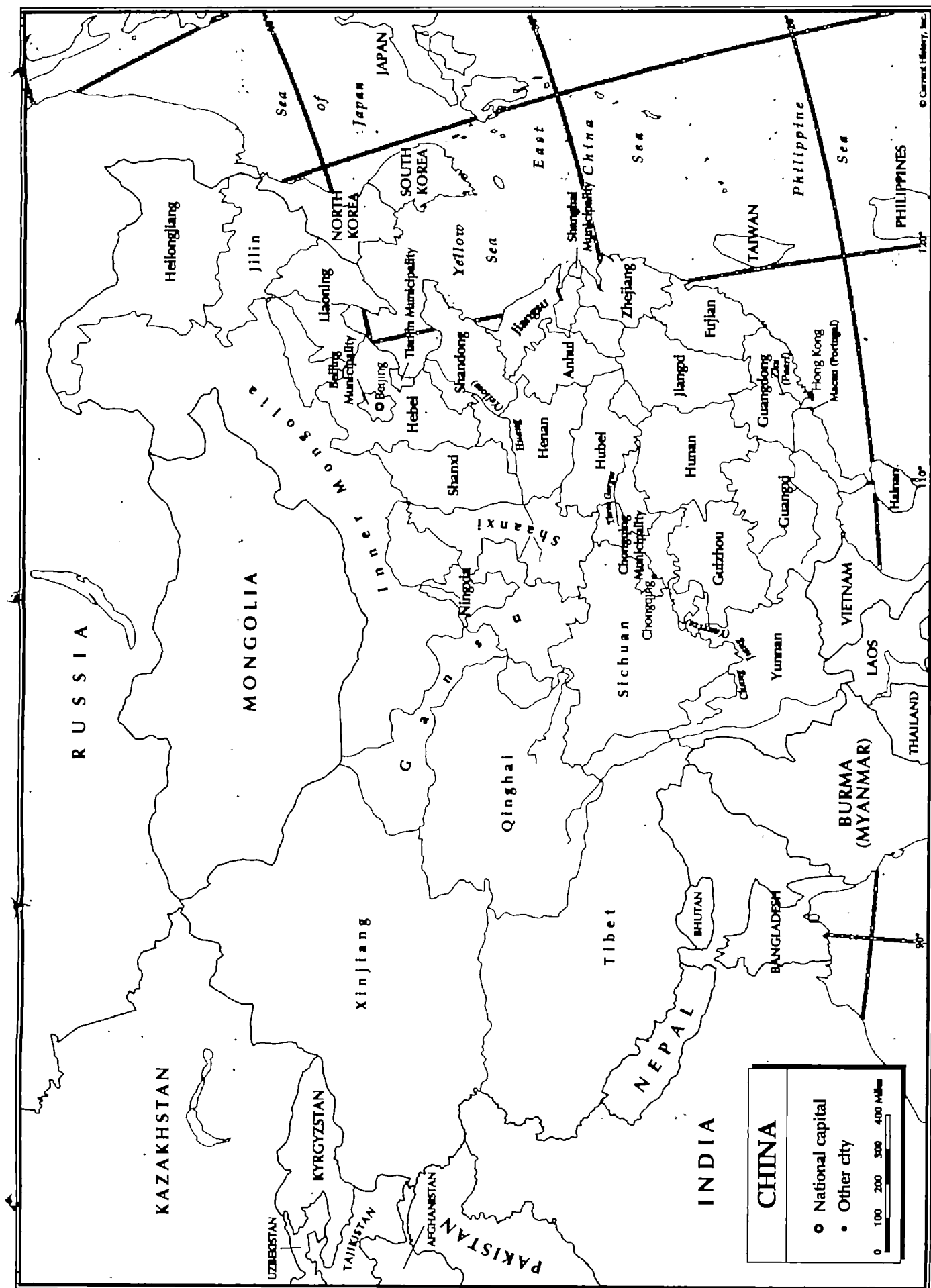
to being the result of productive forces and productive relations that have developed to a certain stage, democracy is also the very condition that allows such development to reach beyond this stage. Without democracy, society will become stagnant and economic growth will face insurmountable obstacles.

Will our enemies let us implement democracy? Of course not. They will stop at nothing to hinder the progress of democracy. Deception and trickery are the most effective means they have. All dictatorial fascists tell their people: Your situation is truly the best in the entire world.

Does democracy come about naturally when society reaches a certain stage? Absolutely not. A high price is paid for every tiny victory; even coming to a recognition of this fact will cost blood and sacrifice. The enemies of democracy have always deceived their people by saying that just as democracy is inevitable, it is doomed, and, therefore, it is not worth wasting energy to fight for.

But let us look at the real history, not that fabricated by the hired hacks of the “socialist government.” Every small branch or twig of true and valuable democracy is stained with the blood of martyrs and tyrants, and every step taken toward democracy has been fiercely attacked by the reactionary forces. The fact that democracy has been able to surmount such obstacles proves that it is precious to the people and that it embodies their aspirations. Therefore the democratic trend cannot be stopped. The Chinese people have never feared anything. They need only recognize the direction to be taken and the forces of tyranny will no longer be invincible. ■

*WEI JINGSHENG was exiled to the United States this year after spending nearly two decades in prison for his writings and activism. This essay is excerpted with permission from Wei's *The Courage to Stand Alone: Letters from Prison and Other Writings* (New York: Penguin Books, 1998).*



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"For the first time in several years, politicians across the spectrum—liberals, communists, and nationalists alike—have begun to speak about the specter of Russian fascism should the current economic and political crises continue. Others, including even President Yeltsin, have warned of coup plots aimed at toppling Russia's fragile democracy. What went wrong, so quickly?"

Russia's Summer of Discontent

MICHAEL McFAUL

Nineteen ninety-eight was supposed to be the year that Russia turned the corner. The 1996 presidential election had marked the end of a transitional period for Russia's political system and had seen Boris Yeltsin receive a renewed mandate to pursue his reform agenda. Equally important, all major political actors participated in the election and accepted the results as legitimate. The street protests, mass social action, and violent conflict that had constituted Russian politics in the country's first years of independence had given way to the electoral process. Gubernatorial elections in the fall of 1996 and spring of 1997 reconfirmed the primacy of elections in determining who rules Russia. Because elections rather than revolution were the focus of attention for most politicians, 1997 was politically the quietest year in Russia since independence in 1991.

This relative calm provided the perfect context for finally tackling Russia's economic woes. When Yeltsin introduced his reform plan in January 1992 to transform Russia's command economic system into a market economy, he warned citizens of tough times ahead, but promised that the transitional economic downturn would last just 10 or 11 months. Six years later, only a handful of people had realized any benefit from this "reform"; Russia recorded negative growth rates from 1992 to 1997, while the majority of citizens reported in opinion

polls that they were worse off in 1997 than they had been in 1991.

But 1998 was going to be different. At the end of 1997, Russian government officials as well as several Western financial institutions predicted positive growth rates, increased foreign investment, and a continuing bullish stock market for 1998. Yeltsin had reorganized his government in the spring of 1997 to empower a group of young reformers. He made an even bolder reconfiguration in the spring of 1998 when he dismissed Prime Minister Viktor Chernomyrdin and appointed a more reformist government headed by a young banker, Sergei Kiriyenko. Labeled a reformer's "dream team" by many Russian and Western commentators, the new government came into office with the expressed desire to reform Russia's robber baron capitalism. As First Deputy Prime Minister Boris Nemtsov reflected, "A transition is now taking place from unlimited semibandit capitalism, where the rules are dictated by those who are trying to take control of state property, to a situation where the rules are dictated by the state."

The plans for radical economic reform were never realized. Instead, throughout the summer and fall of 1998, Russia has been mired in its most serious financial crisis since independence. The financial crisis, in turn, has threatened to undermine the political stability achieved in the previous two years. For the first time in several years, politicians across the spectrum—liberals, communists, and nationalists alike—have begun to speak about the specter of Russian fascism should the current economic and political crises continue. Others, including even President Yeltsin, have warned of coup plots aimed at toppling Russia's fragile democracy. What went wrong, so quickly?

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INTO THE PRECIPICE

The immediate causes of Russia's financial crisis in 1998 were straightforward. Early in the year, falling international oil prices greatly reduced revenues anticipated for the Russian budget. More important, however, were the unrealistic projections underlying the 1998 budget. Projected tax revenues were more than double the actual amount. Moreover, 40 percent of taxes paid to the federal government in 1997 were paid in kind, not in cash, a practice that continued in 1998. In addition, the Asian financial crisis created a further international strain on Russia's economy as projected inflows of foreign capital into the country's emerging market also decreased.

Given these revenue shortages, the Russian government was compelled to borrow heavily through the international bond market and by issuing short-term domestic treasury bills known as GKOs (state short-term bonds). Over the course of the summer, holders (both foreign and domestic investors) of GKOs became increasingly nervous about the government's ability to honor its debts. Reflecting this lack of confidence, interest rates for GKOs soared, climbing to over 120 percent in the second week of July. Even at this rate, buyers for the government debt were still scarce. At the same time, the stock market continued to fall throughout the year and had lost 50 percent of its January value by July, giving Russia the distinction of having, along with Indonesia, the worst performing stock market in the world.

This situation was not sustainable over the long run, since the amount the government owed to holders of GKOs would soon exceed the foreign reserves held by the Russian central bank. Western analysts predicted that by August the government would be bankrupt and would face the difficult choice of devaluing the ruble or defaulting on outstanding debts.

Before the central bank depleted its reserves, however, the International Monetary Fund intervened. In cooperation with the World Bank and the Japanese government, the IMF offered Russia new loans amounting to \$17.1 billion. In negotiations over this bailout package, IMF officials attempted to secure commitments from the Russian government to undertake several reform policies. This package of reforms was to include over 20 new draft laws that would streamline and rationalize the tax code, decrease the profit tax, raise individual income taxes, create a national sales tax and land tax, raise taxes on imported goods as well as on alcohol sales

and precious metals exports, and cut government expenditures even further to bring the deficit under 2.8 percent of GDP in 1999.

The bailout package failed. The first transfer of IMF funds under the new agreement—totaling nearly \$5 billion—disappeared almost immediately as investors converted their rubles into dollars to get their money out of Russia. This put extreme pressure on the value of the ruble. In a desperate response, the Kiriyenko government surprised the world in August by pursuing a policy of both default and devaluation. On August 17, the government announced a compulsory conversion of short-term GKOs into longer-term debt instruments. The Russian debt market immediately collapsed as investors became convinced that the government would never pay back the borrowed money. On this same day, the government also imposed a 90-day moratorium on payments of all hard currency loans owed to Western commercial banks. Simultaneously, it announced a new trading price for the ruble 30 percent lower than the day before. In a single day, the two major economic achievements of the Yeltsin era—control of inflation and a stable, transferable currency—were eliminated.

These emergency measures did little to halt the economic crisis. The stock market all but disappeared, the ruble continued to fall, and banks began to close. Responding desperately to a desperate situation, Yeltsin fired Kiriyenko and his government the next week and nominated Viktor Chernomyrdin as his candidate for prime minister. After Chernomyrdin was rejected twice by the Russian parliament, Yeltsin nominated Foreign Minister Yevgeni Primakov as a compromise candidate, and he was quickly approved. In the meantime, the economy continued to collapse. The ruble plummeted, banks refused to allow withdrawals, prices soared, and stores emptied as people started to stockpile goods such as cigarettes, sugar, and flour.

THE CRISIS BEHIND THE CRISIS

No matter who emerges from the current crisis to rule the country, there are no immediate solutions to the economic problems. Russia's latest crisis was not caused by failed macroeconomic policy undertaken by the Kiriyenko government or the IMF. Rather, the roots are microeconomic: ill-defined property rights and a lack of institutions capable of clarifying and enforcing these rights. Failure to appreciate the importance of this problem will lead to further misdirected "reforms" and continued economic depression in Russia.

In 1992, the Russian government launched an ambitious and comprehensive program to privatize most of the economy. Two years later, the Russian government (as well as the United States Agency for International Development and its Western contractors who assisted the privatization effort) trumpeted the success of its program by noting that more than 100,000 enterprises had been privatized.

While speedy, this privatization program did not produce effective owners. At two-thirds of all large enterprises, insiders—the directors in cooperation with the trade union officials loyal to them—gained a controlling share. At the time of privatization, the vast majority of these enterprises subtracted rather than added value to the economy. Amazingly, with the exception of a handful of energy exporters and a few other companies, most have continued to operate as net subtractors of value since privatization. Directors are not accountable to outside shareholders interested in profit maximization, so they can avoid restructuring, downsizing, product improvement, and efficiency enhancements. Through complex arbitrage schemes, the withholding of wages, and the use of parasitic “off-shore” companies, these directors can amass individual wealth while their companies continue to operate in the red. More recently, several of Russia's financial-industrial groups have begun to acquire control of the potentially profitable enterprises still operating at a loss, but these new outside owners have yet to pursue restructuring (let alone new investment) vigorously.

Under market conditions, these companies would be forced into bankruptcy, their assets would be reorganized and auctioned, and either owners interested in profit making would assume control or the enterprises would be shut down. In Russia, however, bankruptcies rarely occur. Instead, the state has continued to subsidize ailing companies, initially through direct transfers and now by allowing these companies not to pay taxes. In the wake of the latest financial crisis, many predict that the new Russian government will resort to printing money and issuing credits again, further delaying the reorganization of these enterprises into value-producing assets.

Given these conditions at the micro level, anti-crisis plans for raising revenues will not have an immediate positive effect. No matter what the tax code, most companies do not have the means to

pay since they are bankrupt. There are some exceptions and the government must insist that profit generators like Gazprom, the energy monopoly, and oil companies pay their taxes. But this is only a short-term solution. After all, Gazprom responds to government requests for tax payments with its own unpaid invoices for gas supplied to government enterprises. At some point the government must break this vicious circle by enforcing bankruptcy procedures as the first step toward restructuring enterprises, clarifying property rights, and ultimately finding owners for these enterprises who are interested in profit maximization. And these new owners, it must be remembered, will invest only under the right conditions—conditions that include lower interest rates, a rational tax code, and state protection (rather than mafia protection) of their property.

Russian citizens have begun to lose faith in the democratic process because it has produced few tangible benefits to the average person.

The financial meltdown during the summer of 1998 will further delay fundamental reform at the firm level. Because the government defaulted on its loans, there will be little foreign capital flowing into the country in the immediate future. Strapped for cash, the government will be forced to print money, which will fuel inflation. Faced with the prospect of hyperinflation again, the new government will be tempted to introduce wage and price controls; some provincial governors already have begun to do so. Price controls will spawn a black market and the reintroduction of the dollar as the currency of choice. In the very near future, the Russian economy may come to resemble the Soviet economy in the year leading up to the collapse of the Soviet Union. The road to recovery from this bleak situation will be long and difficult, especially because the very concept of “market reform” has now been discredited.

THE POLITICAL CONSEQUENCES

Soon after the announcement of the ruble's devaluation, Russia's economic crisis became a political crisis. Even before the devaluation, social tensions and workers' strikes had escalated throughout the summer, culminating in hundreds of unpaid miners camping outside the White House (the building that houses the government), demanding their back wages and Yeltsin's resignation. Given this highly charged political environment, not only liberal supporters of the government but even communist and nationalist opponents of

Yeltsin made dire predictions about the disastrous political consequences of a devaluation. Analysts speculated that a sudden rise in prices resulting from devaluation would trigger mass social unrest. Trade union officials and Communist Party leaders feared that they might lose the support of their constituencies, who would turn to more radical political groups in times of crisis. Yeltsin also appeared to be worried about these extremists when he issued a warning in early July to potential non-democratic challengers that his regime retained enough military force to defeat any coup attempt.

To date, Russia's patient citizens have not rebelled in response to devaluation. And in contrast to Weimar Germany, Russia does not have a nationally organized fascist party ready to take advantage of the situation. The Russian National Union, Russia's closest equivalent to Hitler's Nazi Party, still does not enjoy a mass following. The one nationalist group that has organized throughout the country, Vladimir Zhirinovskiy's Liberal Democratic Party of Russia, has shunned radical solutions and has cooperated with Yeltsin (for a price) in finding a solution to the political crisis. On the left, some radical communist organizations have advocated revolutionary tactics, but the leadership of the Russian Communist Party has remained committed to following the democratic process. Most important, all major political actors adhered to the democratic rules of the game in appointing a prime minister, demonstrating the resilience of Russia's new democratic institutions.

As with any revolutionary situation, this social calm could evaporate quickly. If one trigger-happy soldier fires into a peaceful demonstration, calls for a violent overthrow of the regime will escalate. Likewise, if Yeltsin and his team violate the constitution by attempting to delay elections or rule by decree, their enemies also will no longer feel compelled to respect the democratic rules of the game.

DEMOCRACY'S FRAGILITY

These scenarios of coups, state collapse, and revolution seem more compelling when one remembers how weak and fragile the current Russian political system has become. The administrative apparatus of the Russian state lacks the capacity to execute even the most basic of state policies. The Soviet state, like the Soviet economy, collapsed in the fall of 1991. After this collapse, Russian reformers rightly devoted energy and resources to transforming the economy from a command system to a market, but they failed to undertake a commensu-

rate reform program to create a market-friendly, democratic, and effective state. Consequently, the Russian state cannot collect taxes, and fails to provide basic public goods such as security, welfare, and education. This is not a government that has the capacity to withstand even spontaneous and disorganized social challenges.

Russia's democratic institutions are also fragile and unconsolidated. As affirmed through successful parliamentary, presidential, and gubernatorial elections over the last several years, Russia is an electoral democracy. But the system still lacks many of the qualities of a liberal democracy. The constitution gives too many powers to the president, the judiciary does not act as a third and independent branch of government, political parties are weak, mass-based interest groups are marginal, the rule of law has only begun to take hold, and the media are becoming less independent. More generally, Russian citizens have begun to lose faith in the democratic process because it has produced few tangible benefits to the average person.

In addition to a weak state and fragile democratic institutions, Russia also has a president who lacks popular support and legitimacy. Yeltsin's approval rating has fallen back into single digits and even many of his longtime allies have begun to call for his resignation. Yeltsin is not the kind of leader who has the authority to carry out radical economic reforms. Nor could his regime mobilize a popular defense if challenged by a coup or other nondemocratic acts.

As pressures mount for Yeltsin's removal, many predict that Russia's next presidential election will be held sooner rather than later, and well before the end of Yeltsin's term in the summer of 2000. Opinion polls suggest that anyone affiliated with Yeltsin or the current government has little chance of winning the next election. Even in 1996, Yeltsin won not because voters approved of his record in office (his approval rating peaked on the day of the election at 29 percent), but because they feared a return to communism. Yeltsin was the lesser of two evils. However, in the next presidential election the anti-communist card will not work, since no one now believes in the threat of Soviet-style communist restoration. Given the economic and political uncertainties that erupted after his dismissal, former Prime Minister Viktor Chernomyrdin might be able to run as the candidate of stability. However, even with the generous backing of Gazprom and financial industrialists Boris Berezovsky and Vladimir Gusinsky, Chernomyrdin is still a long-

shot candidate, since he presided as the head of government during years of economic stagnation.

A communist victory in a presidential election is also unlikely. Communist Party leader Gennadi Zyuganov has worked hard since his electoral defeat in 1996 to transform his party into a nationalist movement in an attempt to attract new supporters. To date, the strategy has not succeeded. If he runs again, Zyuganov will enjoy solid enough support from his party loyalists to ensure that he will make it into the runoff—which he is almost equally assured of losing. If given the choice between Zyuganov and any other leading presidential contender, the majority of voters in opinion polls say they would support the noncommunist on the ballot.

The absence of viable candidates from either the current government or the communist opposition opens the door for new challengers. Today, two dominate the pack: Moscow Mayor Yuri Luzhkov and Krasnoyarsk Governor Aleksandr Lebed. Luzhkov's program of state-led capitalism laced with ethnic nationalism offers a potentially attractive alternative to the more liberal economic reforms pursued by Yeltsin's government. Although his critics charge that Luzhkov is corrupt, authoritarian, and chauvinistic toward minorities, the city he governs has produced positive growth rates. His supporters hope that he can do for Russia what he has done for Moscow.

At a time of growing popular dissatisfaction, Lebed is the consummate protest candidate. A former general with a reputation for getting things done, Lebed appeals to those who long for law and order. His views regarding market reform and democracy are still ill-defined. But if Russia continues to record negative growth rates the next two years, Russian voters may be ready to reject markets and democracy altogether in favor of a new "third" way.

THE UNITED STATES AND RUSSIA

Russia's latest crisis will deliver another blow to United States-Russian relations. Over the last several years, the Start II arms reduction treaty, NATO expansion, trade with Iran and Iraq, and Russia's new draconian law sanctioning only certain religions have dominated relations between the two countries. To historians of Soviet-American relations, this agenda should sound familiar: arms con-

trol, European security, regional conflicts, and human rights were the main components of most summit talks between the two superpowers during the cold war. This old agenda suggests that the promise of a new postcommunist strategic partnership between the United States and Russia has yet to emerge. Some now argue that, given the balance of power in the international system, the United States and Russia are simply destined to be adversaries. This camp believes that Russia's latest economic crisis will propel to power Russian leaders hostile to the West, compelling the Western world to contain the Russian threat to markets and democracy once again.

This is a premature conclusion. The Soviet communist system—not Russia as a country or Rus-

sians as a people—threatened America's national interests during the cold war. As long as Russia continues on the path of democratization and marketization, Russian-American relations hold the promise of moving beyond these old issues of division and confrontation. It was the collapse of communism, not skilled diplomacy, that brought the greatest progress on all these issues earlier this decade. Consequently, United States strategic interests in the post-cold war era are tied intimately to the

fate of Russia's new political and economic system.

The heightened domestic turmoil Russia has suffered during the last several months suggests that American foreign policymakers must make renewed efforts to promote liberal democracy and a liberal market economy in Russia. If democracy and capitalism collapse there, then the issues of contention between Russia and the United States will multiply and new threats to American security will emerge.

President Bill Clinton's administration demonstrated leadership in responding aggressively to Russia's latest financial crisis by urging the IMF to negotiate a new set of loans to Russia, but the rescue mission failed. Until Russia forms a government and outlines a genuine anticrisis program, it is premature for the IMF, the Group of Seven, or the United States to provide additional funds to the Russian state (although assistance to nongovernmental actors and institutions can and should continue). Once the new Russian government devises a plan to end the crisis, however, it will need Western help to succeed.

In addition to assistance for achieving macroeconomic stabilization provided through the IMF, the

American foreign policymakers must make renewed efforts to promote liberal democracy and a liberal market economy in Russia.

United States should focus on facilitating the development of important market institutions such as laws governing property rights, financial disclosure, bankruptcy, pension funds, taxes, and securities markets to promote enterprise restructuring. Especially as American funds for assistance to Russia continue to decrease, a focus on institutions rather than individual projects or technical assistance for specific economic actors should remain a top priority.

The West must rethink basic assumptions about political reform in Russia. Russian reformers wrongly believed that economic reform had to precede political reform. American assistance programs also adopted this logic and channeled the lion's share of American aid to Russia into economic reform while only a fraction went to promoting democratic institutions. The record of reform in the postcommunist world, however, has demonstrated that the fastest democratizers also have conducted the most successful economic reforms.

Programs that provide expertise on the development of the basic institutions that constitute a liberal democracy—that is, programs that promote parties, federalism, the rule of law, independent media, and civil society—should be expanded, not curtailed. The United States also can do more to foster basic democratic values in Russia by providing civics textbooks, funding public policy programs, developing higher education courses on democracy, and continuing student exchanges. While the market creates incentives for Russians to learn how to become entrepreneurs, Russians today have few incentives to learn how to be good democrats.

Finally, at the highest levels, American officials must send clear signals to Russian elites about the

negative consequences of circumventing the democratic process. For instance, Clinton should urge Yeltsin to establish a precedent for the peaceful transfer of political power through the electoral process. Because such a transfer would be a first in Russian history, no single event is more important for the consolidation of Russia's democracy than the upcoming presidential election. The Clinton administration also must send an unequivocal message to the Russian government that the West will not condone any extraconstitutional seizures of power, be they radical plots to overthrow the current regime or plans by the Yeltsin group to institute martial law.

Many Americans have grown weary of Russia; achievements have been few and headaches many. Now is not the time to give up on it. Only seven years since the Soviet collapse, Russia's revolution has by no means ended. The country's current leaders remain committed to developing a market economy and a democratic polity, and to joining rather than threatening the community of democratic states; it is in the vital national interest of the United States to ensure that this trajectory remains in place. Continued engagement with Russia's reformers, sustained promotion of Russian liberal market and democratic institutions, and gradual integration of Russia into the world capitalist system and the international community of democratic states: these are the policies that will prevent Russia's transition from turning belligerent. Containment, isolation, and neglect of institutional development in Russia are policies that will help transform Russia's revolution into a security threat, both to democratic states in the West and to democratizing states closer to Russia. ■

"Towering above [Russia's] fractured political system is the enigmatic figure of Boris Yeltsin. . . His style of rule is that of a monarch, but his source of legitimacy is public elections. This kind of elective autocracy leads to the worst of both worlds: the instability of periodic elections and the inflexibility of autocratic rule."

A Flawed Democracy

PETER RUTLAND

Seven years after the collapse of the Soviet Union, the political system of the Russian Federation is still a work in progress. Until the August 1998 financial crisis, Russia had managed to establish a degree of stability and predictability in its political life. But the political institutions of the new Russia have not proved capable of meeting the severe challenges that lie before the country. At best, the political system has been paralyzed in the face of the problems demanding resolution; at worst, political power has been wielded by unscrupulous national and local leaders in order to consolidate their grip and exclude their opponents and society at large.

The newly independent states of the former Soviet Union faced three transitions in 1991: to construct a democratic political system; to build a market economy; and to realize a new national consciousness and identity as a sovereign state. It is now clear that Russia has made only partial progress with regard to the first two tasks, and almost no progress at all toward the third. What advances there have been in these three areas have been accompanied by negative developments, and even optimistic commentators admit that the achievements are fragile. Nobody would deny that a sudden and unpleasant change of political direction could occur in Russia at almost any time.

While the three-transitions paradigm is a useful starting point for analyzing the political situation in Russia, it is also somewhat misleading. It assumes that we know the basic model toward which Russia is headed: liberal democracy and Anglo-American style capitalism within the framework of a traditional

nation-state. Although the 1980s saw many countries move in the direction of this market-democracy model, there are an equal number that obstinately refuse to conform to that pattern. Japan, India, and China all have important structural features that diverge from the paradigm toward which Russia is said to be headed. Russia too, with its unique history and geography, will likely fall into the category of countries with a distinctive political system.

Thus, it is important to ask not just where Russia is headed, but where it stands now. Rather than judging the country with a scorecard of transition toward a future ideal goal, it is necessary to pose the basic questions political scientists ask of any system, stable or unstable: Who rules? Who benefits? And to what end?

WINNERS AND LOSERS

Russia has been a democracy since 1991, holding two sets of fairly free elections for both the Duma (the lower house of parliament) and president over the past six years. However, it is a very imperfect form of democracy that has emerged, one that has more in common with the quasi democracies of Indonesia or the Philippines than with Britain or the United States.

Power is heavily concentrated in the hands of the president, with various bureaucratic and financial clans struggling to gain access to the Kremlin. Key elements of the Soviet nomenklatura decided to embrace capitalism between 1988 and 1992, and used the privatization program to secure their control of industrial assets in the new market economy. They were joined by a small number of new, upwardly mobile young oligarchs—most of whom had close ties to the old Soviet elite.

These "winners" from the transition to market democracy are vastly outnumbered by the "losers"

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(such as the elderly and workers trapped in collapsed industries and isolated regions). Although the new democratic system gives the losers a chance to register their discontent, it has not provided them with the institutional opportunity to exert any influence over the people who wield real political and economic power. Counter-elites who could potentially challenge the new Russian oligarchy—the Communist Party, army officers—were confused and discredited by the collapse of the Soviet system. They have yet to formulate a political philosophy capable of mobilizing the discontented for a successful assault on the entrenched elite—and the latter is skillful in using the levers of power to maintain its control. While the 1.5 million-strong army is starved of cash, the 400,000 forces of the Ministry of the Interior are paid on time.

The Communist Party of the Russian Federation is the most serious opposition force, claiming 500,000 members. But the party is deeply divided between “patriotic” and “class struggle” wings, and above all is hampered by its legacy as a ruling party. Its ingrained inclination is to gravitate toward the levers of power, hence its repeated abandonment of votes of no-confidence and its distinct lack of enthusiasm for organizing the oppressed masses. Protests are fairly muted and are generally confined to regions suffering particularly acute economic hardship, such as the eastern port city of Vladivostok.

One important winner in the race to capitalism is Moscow. As the seat of national government and the main gateway to the global economy, the Russian capital has enjoyed an economic boom since the Soviet collapse. President Boris Yeltsin gave authoritarian Mayor Yuri Luzhkov a free hand to run the city as he wished—exempting the capital from the national privatization program, for example. Russian history teaches that to succeed, a revolution must take root in the national capital. There is scant chance of that happening in today’s Moscow.

Corruption has become more entrenched—and certainly more rewarding—than in Soviet times. Transparency International, an international agency that monitors corruption, ranks Russia as one of the six most corrupt countries on earth in which to do business. There has been scant progress in developing the rule of law, separation of powers, or civil society. There has been some genuine progress in respect for individual civil rights in comparison with the Soviet era, but when compared with European countries, Russia still leaves a lot to be desired. Rights guaranteed by the Russian constitution, such

as the right to select alternative military service, to own land, or to live where one chooses, are not implemented in law. And new forms of rights violation have arisen, such as the collapse of state health and education services and the widespread arrears in payment of wages, pensions, and social benefits.

DECREEING DEMOCRACY

Russia has not yet made the transition from a government of men to a government of laws. The Russian political system since 1991 has been built around one individual: Boris Yeltsin. It was Yeltsin who decided to dismantle the Soviet Union in order to deprive his arch rival, Soviet President Mikhail Gorbachev, of a power base. It was Yeltsin who appointed the government that launched Russia on the path of market reform in November 1991. And it was Yeltsin who dismissed the Soviet-era parliament, the Supreme Soviet, in September 1993 and wrote a new constitution creating a presidential republic (which was approved in a referendum in December 1993, albeit with some accusing Yeltsin of rigging the result).

The 1993 constitution created a lopsided political system in which tremendous authority rests in the hands of the president while the government and Duma are deprived of real power. In practice, the Duma has almost no influence over the composition of the government. The president nominates the prime minister, and if parliament rejects the nominee in three successive votes, the president can dissolve the parliament and call fresh elections. The president is directly responsible for the appointment of law-and-order ministers and has a decisive say over the appointment of all other individual ministers.

Viktor Chernomyrdin, the former chief of Gazprom, the natural gas monopoly, was appointed prime minister in December 1992, and during his five years in office managed to establish a *modus vivendi* with Yeltsin. Even so, it was clear that all major policy initiatives emanated from the Kremlin, where the presidential administration is housed, and not from the White House (the seat of the government since the dismissal of the Supreme Soviet in October 1993).

Yeltsin also developed the habit of launching major government reshuffles once or twice a year in an effort to deflect attention from political and economic crises, often with the goal of reassuring the West that the reforms were “on track.” Ministers and advisers were promoted and demoted with bewildering rapidity. Some were switched from the

Kremlin to the White House and back, and some were plucked from the ranks of the hostile Duma in a bid to appease or, more to the point, to disorient the opposition. The key qualification for promotion was personal loyalty to Boris Yeltsin rather than commitment to any particular political philosophy. Favorites who were seen to have betrayed Yeltsin's trust were swiftly cast aside—often only to be brought back into office a few months later.

Yeltsin elevated favoritism to the key operational principle of his administration. He is the sole unchallenged source of authority in the Russian political system. All key decisions are taken by the president and communicated to the government through networks of aides. As of 1998 his key courtiers include his former press secretary, Valentin Yumashev, and his daughter, Tatiana Dyachenko. They act as gatekeepers, granting access to the leader and communicating his wishes to the outside world. Importance is determined not by who holds which formal position, but by who has access to the sovereign's ear. For example, just before he was summarily dismissed on live television in May 1997 (after only 10 months in office), Defense Minister Igor Rodionov complained that in previous months he had been unable to get a personal audience with Yeltsin, and even his urgent letters went unanswered. It is not surprising, then, that Russian military reform has made zero progress since 1991.

BATTLING FOR YELTSIN'S EAR

By 1996, Yeltsin's personalistic leadership style had resulted in a curious patchwork of political figures and interests in his administration. Macroeconomic policy was dominated by reform-minded liberals, industrial policy by the energy lobby, and security issues by the "party of war," the top security leaders who persuaded Yeltsin to launch the disastrous invasion of Chechnya in 1994. A key role was played by Aleksandr Korzhakov, Yeltsin's long-time bodyguard and tennis partner turned head of presidential security, who protected several networks of conservatives, including key groups controlling the export of arms and metals.

By early 1996, as the Chechen war dragged on and the economic depression entered its sixth year, Yeltsin's popularity rating fell to 8 percent—"lower than grass," in the words of Anatoly Chubais, the

former deputy prime minister who had been fired from his post in January 1996 for failing to solve the wage arrears crisis, and for allowing the Communist victory in the December 1995 Duma elections. Yet Yeltsin rejected advice to cancel the June 1996 presidential election—a sign to some of his democratic convictions. He was able to prevail over Communist challenger Gennadi Zyuganov, thanks to a sophisticated media campaign financed by contributions from Russia's banking elite and pork barrel spending from the state budget.

Yeltsin's campaign hammered home a single theme: the dire threat of a return to the communist past in the event of a Zyuganov victory. Yeltsin narrowly led Zyuganov by 35.3 to 33 percent in the first round (with former General Aleksandr Lebed

drawing 14.5 percent). In the second round Yeltsin scored 53.8 percent to Zyuganov's 40.3 percent. Yeltsin suffered a heart attack between the first and second round of the elections, but this was concealed from voters. He underwent quintuple bypass surgery in November and effectively returned to office only in January 1997.

Russia's political and financial elite, and the country's Western allies, breathed a huge sigh of relief upon Yeltsin's electoral victory. For

some observers, the 1996 election represented the consolidation of democracy in Russia. For others it stood for the triumph of pseudodemocracy and the consolidation of an oligarchic regime.

Chubais, who was brought back by Yeltsin to run his 1996 election campaign, skillfully used a campaign-funding scandal in the middle of the election (two of his aides were caught with a box containing \$500,000 cash) to force a confrontation with the sinister Korzhakov. Chubais accused Korzhakov of plotting a coup by seizing the aides, and forced Yeltsin to choose between firing him or Korzhakov. Yeltsin was then persuaded to fire Korzhakov and several other conservatives, and after the election representatives of the new banking elite entered the government. Onexsimbank's Vladimir Potanin became one of eight deputy prime ministers, in charge of macroeconomic policy, and financier Boris Berezovsky was later appointed deputy secretary of the Security Council.

The fate of Aleksandr Lebed is typical of Yeltsin's political style. After his strong third-place finish in the first round of the 1996 presidential election,

*The Russian government
is a weak agency, in
practice subordinate to
the presidential
administration and
incapable of functioning
as a responsible,
collective force.*

Lebed threw his support behind Yeltsin. (There is strong evidence to suggest that Lebed was coordinating his campaign with Yeltsin's people even before the first round). In return, Lebed was promptly appointed deputy secretary of the Security Council and charged with ending the Chechen war, which he did, much to Yeltsin's surprise, in August 1996. By January 1997 all Russian troops had left the breakaway republic, which quickly descended into banditry and anarchy. Yeltsin saw Lebed as too ambitious a figure, and ejected him from the government in October 1996, amid vague charges of having plotted a coup. In a testament to Russia's growing democratization, however, Lebed refused to go quietly. He won election as governor of Siberia's Krasnoyarsk krai (region) in June 1998, and is well placed to make a run at the federal presidency in 2000.

STILLBORN REFORM

Amid all these comings and goings, Viktor Chernomyrdin represented the calm at the center of the storm. Chernomyrdin had little day-to-day control over macroeconomic or security policy, which was effectively delegated to the respective cliques, although he would occasionally step in if a crisis erupted. He did serve to protect the interests of the energy lobby: the oil and natural gas companies that generated 60 percent of Russia's exports and 25 percent of federal budget revenues. However, in March 1997 Chernomyrdin was forced to accept another humbling overhaul of his government. Yeltsin, surfacing with renewed vigor after eight months of illness, appointed two powerful first deputy prime ministers, presidential chief of staff Anatoly Chubais and Nizhny Novgorod Governor Boris Nemtsov, to spearhead an ambitious program of social and economic reform. There was widespread speculation that Yeltsin had chosen the 37-year-old Nemtsov as his "crown prince" (similar rumors had blossomed following the appointment of Lebed the previous year).

Alas, the 1997 "spring offensive" of the young reformers was stillborn. The program generated strong opposition from the Duma, from regional leaders, and from the financial elite who were expecting payback from the government in return for their support for Yeltsin's reelection bid. An important turning point was the privatization of state-owned shares in some major companies in the summer of 1997. In July the government sold 25 percent of the shares in the telecom monopoly

Voters treat parliamentary elections as an opportunity to register a protest vote.

Svyazinvest for \$1.9 billion to a consortium assembled by Oneksimbank and financed largely by funds controlled by international financier George Soros. In August, Oneksimbank also won control of the lucrative Norilsk Nickel enterprise. Rival bankers, such as Berezovsky and Most Bank's Vladimir Gusinsky, protested that these sales had been unfairly steered into the lap of Potanin's Oneksimbank. The alliance between the bureaucrats and the bankers, which had secured Yeltsin's reelection, seemed to be over.

The disgruntled oligarchs launched a smear campaign through the TV and newspaper outlets they controlled. Their weapon of choice was *kompromat*: the leaking of scandalous material about corruption. (The low point of the year was the release of a videotape of the justice minister cavorting in a mafia-controlled bathhouse.) The Interior Ministry and Federal Security Service (the successor to the KGB) were involved in these games. Using their Soviet-era expertise, they were still taping all and sundry, and apparently selling their wares to the highest bidder. The "information war" produced a stream of casualties in the government's ranks, as tales of secret meetings and large "advances" in return for nonexistent books emerged. In August the head of the State Privatization Committee,

Alfred Kokh, was fired, and his replacement Maksim Boiko was fired in November. Chubais narrowly survived as first deputy prime minister, despite evidence that he had taken a \$90,000 "book advance."

The "bankers' war" damaged the reformers and left Chernomyrdin in a stronger position. Talk grew that he was the natural replacement for Boris Yeltsin as president in 2000. For Yeltsin, jealous of threats to his authority, this was a danger signal. In March 1998 he abruptly dismissed Chernomyrdin, along with the entire government. He appointed the 35-year-old Sergei Kiriyenko, a banker from Nizhny Novgorod, as prime minister—reportedly after several regional governors had turned down the job. Yeltsin forced this through despite the fact that Chernomyrdin had strong backing in the Duma, while Kiriyenko was seen as a nonentity, his political experience limited to half a year as energy minister.

The rhetoric from the previous spring was dusted down, and Kiriyenko was charged with launching a new round of social and economic reforms. The young prime minister was soon faced with a massive financial crisis, caused by mismanagement of

the federal budget deficit, the delayed impact of the Asian financial crisis, and the 40 percent fall in world oil prices over the previous half year, which hit Russian export earnings. In June 1998 the IMF and World Bank came through with a rescue package totaling \$22 billion, to be disbursed over the next 18 months. It is not clear whether the Western bankers really believed the reformist claims of the Kiriyenko government, or were just using this as an excuse to buy another year or two of political peace in Russia.

In August the financial system spiraled into chaos. Russian banks were unable to borrow money to finance their speculation in the bond market as the international financial community grew fearful that the ruble exchange rate could not be defended. A letter from George Soros to the *Financial Times* triggered a massive flight from the ruble, which caused the government, on August 17, to abandon the ruble corridor (the range in which the ruble traded against the dollar) and announce a moratorium on most international debt repayments. The ensuing financial chaos led to the firing of Kiriyenko and the reappointment of Chernomyrdin in an effort to regain a degree of stability.

A PUSILLANIMOUS PARLIAMENT

These recent political events show that the Russian government is a weak agency, in practice subordinate to the presidential administration and incapable of functioning as a responsible, collective force. The structural weakness of the government also has a deleterious effect on the legislative branch. When voters elect the parliament, they are not choosing between rival parties with credible programs, one of which will rule the country, since the voters know that the legislature has only a marginal role in the selection of the government. Voters treat parliamentary elections as an opportunity to register a protest vote, hence the victory of Vladimir Zhirinovskiy's Liberal Democratic Party of Russia in 1993, and Zyuganov's Communist Party of the Russian Federation in 1995. Similarly, there is little incentive for the parliamentary parties to behave responsibly, since they know that they will not have to form a government and take on the burden of rule themselves.

Even the legislative power of the parliament is severely constrained. The government and legislature run on parallel tracks: less than half the legislation is introduced by the government. Yeltsin has been energetic in vetoing legislation, and if the Duma is able to muster a two-thirds majority to

override his veto he is prone to appeal the issue to the Constitutional Court. This occurred twice in 1997, with Yeltsin refusing to recognize parliamentary votes overriding his veto of bills on the return of art works seized by the Red Army during World War II, and on the structure of the federal government.

Threats from Yeltsin to dismiss parliament, sweetened with occasional offers of ministerial posts to Duma leaders, are usually sufficient to persuade the Duma to accept his bidding. The parliament does enjoy a degree of negative power: it has been able to block or delay the passage of certain legislation, such as a new code allowing free sale of land, or a law allowing production sharing for foreign investors in mining projects. There is now an annual ritual over the adoption of the next year's federal budget. The Duma writes in over-optimistic revenue and spending projections. By the spring, when it is clear that the revenue targets will not be met, the government is forced to step in and "sequester" spending. Hence actual federal spending often bears scant relation to the targets laid down in the budget law: most defense spending ran at less than half the targeted level in 1997. The Communists are determined to use the August crisis as an opportunity to force Yeltsin to cede more power to the parliament, and as of early September were demanding that he agree to constitutional changes before they would approve the appointment of Chernomyrdin as prime minister.

EXERTING CONTROL FROM MOSCOW

The emergence of a presidential republic at the national level coincided with a steady leakage of power from the federal center to the regions. Yeltsin himself deliberately encouraged this devolution of power as part of his strategy of combating first Gorbachev (within the Soviet Union) and then the conservative Supreme Soviet.

The 21 ethnically designated republics within the Russian Federation have adopted their own constitutions, most of which violate the federal constitution to some extent, and the Kremlin has signed bilateral power-sharing treaties with more than half of Russia's 89 regions. The regional leaders extracted some major concessions from Yeltsin in return for supporting his draft constitution in 1993. Yeltsin agreed to create an upper house (called the Federation Council) in the new parliament, in which regional leaders would be represented. At the same time, Yeltsin no longer had the Communist Party's pyramid of regional committees to rule Rus-

sia, and the network of presidential representatives he created to be his "eyes and ears" in the regions was a failure.

In 1996 Yeltsin once again turned to regional leaders for support in his electoral campaign. The authority of the regional governors was enormously boosted by the wave of gubernatorial elections in late 1996—prior to that most had been directly appointed by Yeltsin. By 1997, noted Russia scholar Robert Orrtung, "for the first time in Russian history, elected governors ruled every region of the country except for the republic of Karachaevo-Cherkessiya." A series of elections to some 30 regional legislatures in the fall of 1997 generally saw pragmatic local managers prevail over communist challengers.

However, the governors are generally unsure of the extent to which they can challenge the federal center. Only 10 of Russia's 89 regions are net donors to the federal budget, the rest are all dependent to some degree on subsidies from Moscow. The Federation Council, composed of two representatives from each region, is slowly emerging as a possible platform for the collective expression of regional interests and a check on presidential power. It has flexed its muscles over legislation, despite being constrained by the infrequency and short duration of its meetings. However, efforts to organize the governors and directly challenge the national leadership from a regional perspective (such as the "Fatherland Reform" movement of Sverdlovsk Governor Eduard Rossel) have made little headway. The provincial leaders may be little autocrats in their own territories, but they find it difficult to agree on their common interests toward the center. One important development came in July 1997, when the Federation Council blocked Yeltsin's efforts to remove the obstreperous governor of Primorski krai in the Russian Far East, Yevgeni Nazdratenko.

THE YELTSIN ENIGMA

Towering above this fractured political system is the enigmatic figure of Boris Yeltsin. He has fashioned a political system in which he plays an indispensable role: "If there were no Yeltsin, he would have to be invented."¹ He has constructed what Russian political analysts Igor Klyamkin and Lilia Shevtsova call an "elective monarchy." His style of

rule is that of a monarch, but his source of legitimacy is public elections. This kind of elective autocracy leads to the worst of both worlds: the instability of periodic elections and the inflexibility of autocratic rule. Rather than using his power to implement effective and farsighted public policies, Yeltsin is forced every few years to devote the resources of his office to securing reelection. Klyamkin and Shevtsova argue that this contradictory and unstable state of affairs will collapse once death or illness removes Yeltsin from the political stage, so it is time for a constitutional convention to design a new political system for Russia.

For the time being, however, Yeltsin remains the dominant figure. The Communists say they want him to resign, but even they may tolerate Yeltsin continuing in office as a figurehead until the end of his term in 2000. For the Communists there is a danger that by replacing him before the presidency has been stripped of some of its powers, they may merely entrench a new hostile figure—such as Aleksandr Lebed—in the Kremlin.

After six years in office, Yeltsin remains a controversial leader. To some he is the father of Russian democracy, to others he is the butcher of Chechnya. Events in 1997 and 1998 did nothing to solve the riddle of Yeltsin's true historical role. Rather, one saw more of the political dancing that has become his calling card—the firing of ministers, the promotion of ministers, the calls for decisive reform. Yeltsin's health seemed to be much improved over 1996, although he continued to make embarrassing gaffes at international gatherings that suggested he was not fully in command of his faculties. Public appearances were rare, and it was reported that he could only work for a few hours per day. As in Leonid Brezhnev's Soviet Union, the health of the leader remains the greatest source of instability in the Russian political system.

What, then, has Russia gained after six years of democratization? Political power is more nakedly exercised, stripped of the illusionary screen of ideology. Ordinary citizens have few opportunities to exercise meaningful influence over their political leaders. The presidency is subject to popular election, but enjoys few constraints on its power. Elections to the national legislature are more competitive, but also less meaningful, in the absence of well-organized parties to present clear choices to voters and given the parliament's inability to exert much control over the government's actions. ■

¹ Igor Ignatyev and Stanislav Tarasov, in *Vek*, July 1998

One of the more curious responses to the introduction of the market in Russia has been the growth of "barter, which has displaced the ruble in anywhere from 70 to 80 percent of the country's business transactions. . . . Why is barter, which is avoided by Western businesspeople, so attractive to their Russian counterparts?"

The Cashless Society

MARSHALL I. GOLDMAN

When asked whether his company was profitable last year, Kakha Bendukidze, the president of Uralmash, once one of the world's largest machine tool and armaments producers, replied, "By Russian accounting standards we had a \$40 million profit; however, by Western accounting standards we had a \$50 million loss."

Bendukidze's accounting quandary dramatically illustrates how distorted the Russian economy has become in the wake of what were supposed to be liberalizing economic reforms. Much of the problem stems from faulty privatization procedures that have resulted in the brazen theft of state property. Less attention has been devoted to another factor: barter, which has displaced the ruble in anywhere from 70 to 80 percent of the country's business transactions.

Barter is an extremely inefficient way to run a country. Moreover, with barter, the buyers and sellers are never sure precisely what their actual costs and sales prices are—which explains why Uralmash's president reported a profit using Russian accounting procedures and a loss using more precise Western standards.

As unsettling as these arbitrary practices might be to an American businessperson, in today's business climate many Russians prefer barter to cash transactions. Barter in Russia among businesses has a long history with origins in the prerevolutionary period. It was also used widely during the communist era of central planning. In fact, the way economic activity is conducted in Russia today and the way Soviet managers traded with one another for goods not provided in their planning allocation are striking.

Because it is so inconvenient and cumbersome, as societies grow economically they dispense with barter and rely increasingly on money transactions. As elementary economics textbooks point out, it is much more efficient to attach prices to goods and services and pay for those goods in a common currency than to swap one good directly for another. By using currency and prices there is no need to determine relative values and locate two or more parties with goods that equal each other in value. Barter makes it more difficult to establish precise values; as a consequence, not only must more resources be devoted to conducting a swap operation than would be the case if all purchases and sales were conducted in cash, but usually the goods obtained in exchange bring less value to the transaction than if cash and prices were used. Economists call this extra time and expense a "transaction cost." Normally, therefore, it is only when an economy is dysfunctional that barter increases as a share of GDP. What makes modern-day Russia so intriguing is that even when the economy seemed to be showing signs of improvement, barter continued to play an important role.

Why is barter, which is avoided by Western businesspeople, so attractive to their Russian counterparts? The answers provide important insights into Russia's culture and its economic mores.

BARTER AS A WAY OF LIFE

Because prerevolutionary Russia was economically underdeveloped for so long, it is not surprising that a large percentage of the country's peasants (who constituted 80 percent or more of the population) not only lived close to the subsistence level but dealt with each other on a barter basis. Only after industrialization began in the late nineteenth century did the ruble as a medium of exchange become widespread. Even then it was primarily used by the urban population. However, in the waning days of World War I there was a relapse

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when the economy collapsed. The subsequent anarchy of the civil war and transition to communism gave rise to economic chaos and runaway inflation. As the ruble lost its value, fewer and fewer sellers agreed to accept the currency, and more and more of the population found it could only obtain the products it needed by bartering.

By the time Stalin instituted centralized economic planning in 1928, the economy had reconstituted itself but with a prohibition against the private ownership of the means of production in industry, agriculture, and services. This should have reduced the role of barter since, in theory, if central planning is fully effective, there is no need for barter; all enterprise and personal needs will be anticipated and supplied and the enterprises will conduct their transactions by clearing ruble debts and credits in state-owned banks. But in real life it is nearly impossible to be so omniscient. Even in market capitalism there are periodic shortages (beanie babies) and gluts (Redux pills). In time, barter came to account for an increasingly large number of transactions in the Soviet Union, not only among individuals but also among state enterprises.

Contrary to expectations, planning in the Soviet Union seemed designed to create anything but equilibrium conditions. Many planners acknowledged that they intentionally attempted to generate taut economic conditions. Their rationale was that this was the best way to stimulate higher output. Sometimes tautness achieved just that, but as often as not the ubiquitous disequilibria provided bountiful windfall opportunities, an environment made to order for underground activity and barter.

Stalin was determined to curb such behavior, severely penalizing those who circumvented the plan by operating private production facilities. Police surveillance and controls did deter many from risking jail or even execution. As a result, there were even greater profit opportunities for those daring enough to flout the law.

While private profit-making activities were clearly illegal, there were other gray area practices adopted by most state enterprises to cope with the rigidities of the planning process. Because the plans were set so far in advance, factory directors almost always found themselves in need of one input or another not anticipated by the plan. Failure to satisfy such needs, however, would often jeopardize plan fulfillment.

*Workers have been
paid in toilet paper,
tires, shoes, trucks,
manure, condoms,
brassieres, tombstones,
and coffins.*

To avoid the criticism and penalties that invariably followed planning shortfalls, most Soviet enterprises used the services of what were called *tolkatchi* (pushers or expeditors). Their function was to supply the plant director with whatever was needed but not included or delivered by the plan. This usually meant falling back on unauthorized sources of supply. Payment for these goods was made sometimes in rubles but just as often in barter or swaps. Technically such activities were illegal. Periodically state authorities would arrest a circle of *tolkatchi* who might have been particularly blatant or excessive in their dealings.

For the most part the *tolkatchi* were tolerated as a necessary evil because it was widely acknowledged that without the flexibility they provided, the planning system would have been even more rigid and unresponsive than it was. Many Russians came

to assume, even if only subconsciously, that the *tolkatchi* were essential to the smooth functioning of the Soviet economy. As a consequence, over the years large numbers of men and women were trained to deal in these often arcane practices. Just as Americans have placed a premium on developing a large core of specialists skilled in finding new ways of raising capital on Wall Street (practices of absolutely no use in a centrally planned system), so large numbers of Russians developed bartering skills that would have been of little or no use in a healthy market system.

As Presidents Mikhail Gorbachev and Boris Yeltsin began to allow and ultimately encourage market practices, it looked for a time as though there would be less and possibly no need for underground or barter activities. After 1987 it was no longer illegal to operate a private business, and with the disappearance of the five year plans, there were no longer constraints on what directors of enterprises could buy or sell. Those who had been operating in a clandestine fashion could now operate in the open.

On a visit to Sakhalin in 1992, I saw firsthand such a transformation. I was introduced to a hunter who had just opened a retail store that sold fur skins and coats. However, he also took me to a secluded basement workshop that he had operated clandestinely for many years in the Soviet era. Once it became legal to open a private business, he literally moved out of the underground basement and established a street-level presence.

Not all Russian businesses moved so quickly to establish a legal presence. Given the many policy changes of the past, some feared there might again be a similar reversal penalizing those who too quickly embraced the market and capitalist exploitation. But there were other concerns, some because of the fear of crime, some because of the initial opposition to private initiatives, and some that arose because of the flawed nature of the economic reforms themselves.

A TAXING PROBLEM

After a rigorous crackdown on crime—including economic crime—by Gorbachev in 1985 and 1986, the decision to allow private and cooperative business in 1987 caused considerable confusion as to what was legal or illegal. Before 1987, the police knew that when they saw buyers or sellers on the street or manufacturers outside of state-sanctioned premises, the odds were that the parties were engaged in illegal practices. After 1987, it was no longer so clear.

This ambiguity made it possible for many to legitimize activities that previously, as with the fur dealer on Sakhalin, would have been classified as economic crimes. But there were many others who became involved in more than buying and selling. Given the enormous profits available to those who could supply the pent-up hunger for consumer goods off-limits in the Soviet era, many Russians suddenly became very wealthy. They in turn quickly became targets of mafia groups, some of which had always existed secretly and others that materialized to take advantage of the new opportunities. Prospective entrepreneurs came to appreciate that the more public their operation, the more vulnerable to crime and extortion they would become.

Gradually this also discouraged businesspeople from holding large sums of money in private banks. Various mafia groups decided early on to penetrate or even control almost one-half of the Russian banks—not for the assets, but for the records of deposits. With these lists they were able to persuade those with money that they had a need for protection. To avoid such confrontations, businesspeople rapidly learned to accept payment in barter and thus operate under the radar screens of criminal groups.

Before long it was not just criminal groups that businesses sought to hide from but the Russian government. Such “stealth” procedures became all but essential as the government sought to increase the taxes it collected. In the Soviet era tax collection was not a concern. Since virtually everyone worked

for the state, personal income taxes were quietly deducted from workers’ pay envelopes; most workers never even knew that there were income taxes in the Soviet Union. Similarly, all businesses were owned by the state and in the same way taxes on profits were deducted from state enterprises and turned over directly to the government.

With the privatization of state enterprises and the legalization of new private businesses, it became more difficult to require compulsory wage deductions. In addition, those who are self-employed as well as those who have a second job are now supposed to file their own tax returns. But without a tradition of voluntary tax collection, fewer than 4 million Russians out of the 65 million in the workforce filed returns in 1997. (Some say the figure was less than 2 percent of the workforce.) Moreover, when a self-acknowledged billionaire like Boris Berezovsky reports that his income in 1997 was less than \$40,000, there is reason to worry about the accuracy of those returns that are filed.

Compliance in the business community is probably not much better. According to a study conducted by the prosecutor general’s office, out of the 2.7 million companies that should pay taxes, 33 percent neither paid taxes nor filed tax declarations. Of those that did pay taxes, one-third used barter as a form of mutual settlements. Another survey found that only one-fifth of Russian businesses even filed a tax form. This means that not only does the state have difficulty collecting business taxes, but it also has difficulty collecting those deductions made from the salaries of businesses’ employees.

All of this has a direct impact on the growth of barter in the Russian economy. Because the state has had so much trouble collecting the taxes it levies, it has sought whenever feasible—and even in some cases when it was not—to increase the number and range of taxes. What the state could not collect with a few taxes it hoped to capture with a wider variety. Thus, starting with about 4 profit-based taxes in 1991, by 1998 oil companies faced 42 different taxes, almost all of which were based not on profits but on revenues. Other businesses reported that in 1998, if local and regional taxes were included, they had to pay 200 different taxes.

There are few businesses, Russian or foreign, that can honestly pay all their tax obligations, especially those levied on revenue, and not operate at a loss. Many Russians quickly realized that they could reduce their tax burden by drawing on their extensive experience in escaping state controls, a practice that antedates the Soviet era.

Avoiding taxes has become an art. Businesses underrepresent income and adopt financial procedures that avoid accumulating bank deposits. The reason is that according to the pre-July 1998 tax code, tax liability was determined not only by a business's sales for cash, but also by an imputed value assigned to its barter transactions. But barter may lead to a higher tax bill than a cash sale would, since the list price or advertised value of the product is usually higher than the barter value that both parties accept. Even if the barter price is far below the list price, both the seller and the purchaser in the barter deal must report the higher list price on their tax forms. This means that the taxes owed could total more than the cash value of the bartered goods actually received.

This creates a terrible dilemma for most businesses. Since the tax police have the right to seize business bank accounts to collect unpaid taxes, and since unpaid taxes frequently exceed actual cash or bartered revenues, businesses have every incentive to avoid cash transactions or bank deposits and insist on barter instead, even though at first glance it may seem that this could result in a higher tax bill. In fact, most businesses have learned how to use barter to reduce or even avoid taxes. Here is how it works. They must pay their wages, and for that reason the tax code gives priority to wage payments over tax collection. Whatever is left over the government can claim. Because wages on average constitute 15 percent of business expenses, businesses are perfectly happy to hold the cash share of their revenue to about 15 percent—indeed they prefer it. If there are no bank deposits other than money set aside for wages there is nothing to be seized. Thus Russia is one of the few countries in the world where sellers even more than buyers insist on being paid not in cash but in goods. (This of course refers to large businesses that have little or no contact with retail customers; retailers do prefer to be paid in cash.) As much as anything, the determination to avoid tax payments explains why about 70 to 80 percent of all business transactions are in barter, not cash.

TIRES, ASSASSINS, AND TIGHT MONEY

The runaway inflation that overwhelmed the economy in the early post-Soviet transition years also increased the reliance on barter. The 26-fold increase in prices in 1992 was partly inherited and partly a result of the reforms carried out that year. In an effort to reduce inflation, government authorities then put in place very rigid monetary restraints.

Real interest rates quickly rose as high as 200 percent a year and credit became increasingly harder to obtain from the government budget.

The policy was designed to reduce business activity, and once demand pressures had been cut it was expected that prices would fall. But factory directors and a growing number of newly privatized enterprises almost immediately discovered a way around these government restraints. They began to issue each other credits, that is, they just agreed not to pay each other's bills. Thus interfirm debt grew from 37 billion rubles in January 1992 to 3.2 trillion rubles in August 1992 and 25 trillion rubles in 1994. This increase of course was exaggerated by the 26-fold rise in prices, but it also reflected a substantial real increase in interfirm debt. In the months that followed there were periodic reductions in this debt, but by January 1998 the net interfirm debt amounted to 800 trillion rubles (800 billion new rubles), or \$130 billion. This included not only interfirm obligations but unpaid taxes and wages.

Barter deals can sometimes be quite complicated. A typical example is reported in the April 13, 1998, issue of *Business Week*. Governor Yuri Vneyneyolov of the Yamal Nenets region wanted to acquire a jet plane. He set aside some of the natural gas paid the region as a royalty in lieu of rubles. The gas was then bartered to the airplane manufacturer. But since the aircraft plant lacked the cash to buy the aircraft components it needed, it used the gas to obtain cars, tractors, and buses that it then swapped to obtain the engine for the aircraft. Along the way electricity and tires were also exchanged for necessary electrical equipment. The airplane was finally delivered six months later.

As this example shows, barter trade is time consuming. It can also be dangerous. On a visit to a tire mold factory in Yaroslavl, I was told that the factory was paid for the molds that it sold to the adjacent tire factory with, naturally enough, tires. The mold factory then began to sell the tires on the open market but at a price that undercut the efforts of its customer, the tire factory. Upset by this, the tire factory director demanded that the director of the mold factory raise his prices. He refused and was found dead shortly thereafter. This is a uniquely Russian way to eliminate the competition.

The tight money policy along with the way that the privatization process was implemented created perfect conditions for the reintroduction of that Soviet institution, the *tolkatch*. This time, however, the *tolkatch* has taken the guise of the trading company. Trading companies are not new. Some of the

largest businesses in Japan are trading companies. Unlike present-day Japanese trading companies, however, this post-Soviet Russian version operates primarily through barter, not cash, and is usually a front for providing kickbacks to the enterprise directors it serves.

Because it is so hard to find perfect matches in a barter deal, it makes sense to use the services of a specialist (the *tolkatch*) who has experience with the complex trades that may be necessary as well as possible sources of supply. The extra trouble and transaction costs involved are thus only warranted when—because of the tight money policy—the cheaper and faster cash transactions are not an option. Sometimes *tolkatchi* are also brought in because the parties to such an arrangement see this as the best way to line their own pockets.

Verkhne Volzhsk Shina (VVSh), a tire trading company in the city of Yaroslavl, is a typical trading firm. It was established in 1994 in the wake of the privatization of the Yaroslavl tire factory, which had been one of the largest state enterprises in the city. As a state factory, there was no need to worry about the acquisition of raw material supplies or the disposal of the tires produced. That was the responsibility of Gosplan, the state planning organization, and Gossnab, the state supply organization. But after privatization these acquisition and sale functions fell back on the shoulders of the tire company executives. Given their lack of experience with such basic commercial market activities as buying and selling, mastering these new procedures overnight was not easy. Nor did it help that there were no well-established markets to provide guidance as to what proper prices should be. And, because of the tight money policy, almost no one had cash to pay for large tire orders.

Recognizing how difficult operating the now private tire factory would be, the commercial director of the factory suggested to some of his friends that they set up the VVSh trading company. Since neither the tire factory customers nor its suppliers had cash, the trading company had to arrange whatever barter transactions were needed. For his part, the commercial director of the factory would ensure that the trading company had first call on the tires produced by the factory. It was understood that this would entitle the director to a kickback.

While today 50 percent of the newly privatized enterprises in Russia are running at a loss, most of

the trading companies are doing quite well. Although initially dependent on the Yaroslavl tire factory, the VVSh trading company soon began to branch out, so that by the time of my visit it had gone into real estate, textiles, and the conversion of a nuclear submarine shipyard.

Although not always visible to outsiders, these trading companies have become a key element in the operation of the Russian economy. Their influence is not always benign. In many instances they have become the tail that wags the dog, and they are at least partly responsible for the poor performance of so many businesses. A recent article in the Moscow newspaper *Novite Izvestia* examined the Magnitogorsk steel mill and explained how the trading companies it deals with have brought the plant to the verge of bankruptcy. Since sales executives in the plant working with the trading com-

pany are not the majority owners of the plant, they are not particularly concerned if the steel mill's assets are siphoned off by the trading company.

It also helps if the trading company, like the one in Yaroslavl, can find ways to reward those with whom it works. Thus Profit, the trading company that supplies Magnitogorsk the scrap steel it uses as a raw material input, purchases the scrap at a low price but sells it to Magnitogorsk at six times the prevailing market price. Since the brother of Magnitogorsk's general director runs Profit,

there is relatively little concern about the high prices. Magnitogorsk also overpays for its coal swaps in much the same way. Similarly, it swaps the steel that it produces at a low price for a small quantity of natural gas. In the second half of 1997, it provided 280 billion rubles' worth of steel for 75 billion rubles' worth of natural gas.

SHOW ME THE IOU

In an effort to extend the scope of such non-cash transactions, Russian businesses issue IOUs to each other. Called *veksels*, these IOUs or promissory notes, like the *tolkatchi*, reflect a practice widely used and resurrected from Russia's past, only in this case from the prerevolutionary period. Like barter, the *veksel* is designed to fill the void caused by the unavailability of cash, and it is widely used not only by private businesses but by the government itself. That the government should engage in such ultimately destructive behavior at first seems odd, but because of cutbacks in the federal budget the government

*The dominant
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present day.*

often finds itself unable to pay cash to its contractors, including the producers of military equipment.

To illustrate how the government uses the veksel, assume that it is obligated to pay a manufacturer of tanks 1 million rubles. Since it has no rubles available, it will instead issue a certificate (the veksel) to the tank manufacturer, declaring that in 9 months' time the certificate will be accepted by the government as a 1 million ruble tax payment.

But the tank manufacturer wants rubles now to pay its employees. Even though the veksel will be honored in only 9 months, there are businesses with rubles that are willing to buy the certificate today and hold it if they can pay considerably less than the 1 million rubles of the face value. Therefore the tank manufacturer takes his veksel to a bank or trader who will resell it at a discount. The buyer is usually an exporter such as Gazprom, the natural gas enterprise, or one of the oil companies, which can use the veksel to pay its tax bills at a fraction of what it would otherwise owe. According to one estimate, the veksel issued by both the government and private business now amount to 23 percent of the country's cash transactions. Economists criticize the use of veksel because, like barter, they increase transaction costs, allow some businesses to pay less in taxes than they should, and restrict what the government can do with the tax revenue it does collect.

The shortage of cash as well as the desire to avoid or at least reduce taxes also reflects the way workers are compensated. The simplest way for most businesses to deal with the cash shortage and their unprofitable business is to do what they do with their bills for taxes and supplies: to delay payment. Wage arrears were on average 3 to 4 months behind for most workers and exceeded \$10 billion in mid-1998. When wages are paid they are often paid in kind or in barter; there is a swap of labor power for what the factory makes or what it can obtain through other swaps.

A drive around most provincial cities provides graphic evidence of wages paid in kind. For example, the highway to Yaroslavl runs through the textile district around Ivanovo. Along the road are stalls staffed by workers from these factories trying to sell the towels, sheets, shirts, and other cotton goods they have been paid in lieu of wages. In other cities workers have been paid in toilet paper, tires, shoes, trucks, manure, condoms, brassieres, tombstones, and coffins.

Even when cash is paid it may not come in the form of wages but in a more byzantine fashion. For

example, since interest earned on savings accounts was tax-free until July 1998, many employers set up savings accounts in their workers' names so the workers could collect tax-free interest rather than the equivalent amount in taxable wages.

In another common stratagem to avoid paying taxes, many Russian employers buy insurance annuities in their employees' names. Until July 1998, income from the annuities was also nontaxable. Moreover, if they choose to, employees can always cash in their policies and collect the face value, which is why the government has decided to try to tax insurance proceeds.

MAKING MONEY MATTER

The dominant role of barter and veksel illustrates the hold Russia's czarist and communist economic culture have on the present day. The self-dealing of the enterprise officials and their nefarious dealings with the trading companies also highlight that even in what some mistakenly call a market environment, the onetime industrial barons of the Soviet state enterprises and industrial ministries continue to control the country's riches. The only difference is that now they divert the assets not only for their use but for their ownership.

Many of the practices have become so pervasive because of the flawed nature of the reforms, particularly the application of tight money policies and the overenthusiastic attempt at privatization. But given how deeply rooted some of these practices are in Russia's past, even if there had been a more effective reform strategy, the odds are that those in power would still have reinvented some of these procedures.

In an effort to correct the abuses of the past, the government is attempting to end the use of veksel and abolish tax exemptions on insurance annuities and interest income. However, the most effective action would be to insist on the determined application of bankruptcy procedures. This would induce a substantial number of factory directors to settle their bills and pay in cash. Many businesses, including a large number that are officially operating at a loss, would find the means to pay their bills if there were an effective threat to close down the business, return it to the state, and throw out the existing management. But there is a political obstacle: throwing not only the managers but the workers out into the streets could spark civil upheaval. This is what makes the prospect of meaningful and fundamental reform so doubtful. ■

"There has been a tendency in some circles to ignore the military's role in many polities, including Russia. But if the military represents the last barrier against collapse and chaos, then the state of the armed forces is critical. For Russia, the situation is not encouraging. The Russian military may not yet have collapsed, but it is not far from doing so."

Russia's Crumbling Military

DALE R. HERSPRING

The best indicator of stability in a political system is the military. Why? Because the armed forces are usually the strongest, most cohesive, and most disciplined organization in any polity. If they have lost cohesion and discipline, then the outlook for the political system is bleak.

Unfortunately, this is exactly the condition the Russian military finds itself in. Discipline has collapsed, equipment is becoming antiquated, morale has sunk to an all-time low, good officers and non-commissioned officers are leaving the service, the country's generals have been politicized, and Moscow's ability to ensure the military's obedience in a crisis is doubtful.

BUDGET PROMISES UNKEPT

The Russian military is shot through with problems. The greatest concern is money. Not only has the military's budget been cut each year over the past decade, but it has rarely received even the funds promised. In 1997, the military received only 56 percent of its budgeted appropriation. It was given only 43 percent of its budget allocation for medical services, 41 percent of monies earmarked for clothing and equipment, and only 50 percent of what was promised to feed its soldiers. The last shortfall has led to a constant delay in paying officers, whose salaries are often used to feed enlisted personnel.

This budget crisis has had a cataclysmic impact on the entire military. Because of cutbacks in weapons purchases (only 2 combat aircraft were

purchased in 1995, compared with 585 in 1991), by 1998 only 30 percent of all weapons in the Russian inventory could be classified as modern—in NATO countries the number stood at between 60 and 80 percent. If current trends continue, by 2005 only 5 to 7 percent of all Russian weaponry will be new, and Russia's military will hold third world status.

Moscow's worry about weapons does not end with the need for new systems. Existing equipment is also in desperate need of repair. Marshal Igor Sergeyev, the Russian defense minister, noted this April that 53 percent of all aircraft as well as 40 percent of anti-aircraft systems, helicopters, armored equipment, and artillery required repair. The navy is in even worse condition.

Equipment problems have had a disastrous effect on Russian combat operations. During the war to suppress the insurrection in the republic of Chechnya in 1994–1996, the army quickly discovered that it lacked the money needed to carry out operations. Funds had to be diverted from its regular budget, further worsening the situation for the armed forces as a whole. At one point the shoes and winter hats worn by Russian troops in Chechnya were paid for by a Moscow bank; the army simply could not afford to buy such "luxuries." And because of a lack of modern weapons, the military relied heavily on older arms and ammunition, some of which were manufactured during World War II.

Other examples abound. By 1997, almost all government meteorological stations had stopped passing critical weather information to the military because of nonpayment, and Prime Minister Viktor Chernomyrdin had to order power stations to continue to supply military installations with power even if they had not paid their electricity bills. At the end of 1997, the military's total debts exceeded 40 trillion rubles, or half the 1996 military budget.

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Lack of money has also hurt training. If soldiers do not train, their ability to carry out their assigned missions quickly degrades. Training funds are down 90 percent since 1991, and Russia's armed forces have not conducted a single division-level ground forces operation since 1992. Similarly, Russian pilots are lucky if they get in 25 hours of flying a year—just a fraction of the 150 to 200 hours that NATO recommends for its pilots. According to Russian sources, pilots often spend more time sweeping runways than flying planes. Many can be found working part-time as cab drivers (it is also not unusual to see soldiers begging for money on the streets of Moscow). With the exception of some elite units (airborne troops and those engaged in peacekeeping operations), the vast majority of Russian soldiers receive little or no training, and are thus in no position to carry out combat operations. If the Russian army were called on to go to war (especially if the operations were large-scale and offensive), the cost in terms of human life would be tremendous—a cost that would be exacerbated by the lack of sophisticated weapons and equipment.

A BREAKDOWN IN DISCIPLINE

At one time observers could talk of "Prussian-style" discipline in the Soviet military. This writer can remember seeing many cases in which Soviet soldiers and sailors were subject to the most brutal discipline and behaved almost like puppets. Although some criminal acts probably occurred, they often were limited to activities such as senior officers using soldiers to build dachas for themselves. Soldiers might not have been exceptionally efficient, and they might have taken whatever they could from the state, but generally crime in the Soviet military was limited.

Over the past 10 years, however, discipline has deteriorated to the point where the military prosecutor's office has a full-time job pursuing those accused of the most serious forms of crime, such as murder. Yuri Demin, the chief military prosecutor, noted in 1997 that 50 soldiers were shot by fellow servicemen—and this was just those on guard duty who shot each other! He further reported that by March 1998, another 10 had been killed in similar circumstances. The problem continues to grow. In May, in the Far Eastern military district, 4 soldiers reportedly shot and killed their commanding officer. In all, during 1997 approximately 521 servicepeople died because they were engaged in criminal activity. In addition, Demin reported that 14 generals were under investigation for committing crimes.

Suicides are also a growing concern. In 1997, 487 soldiers committed suicide, 57 more than in the previous year. The Duma reported that between January and April 1998, another 132 committed suicide. While the cause is unclear, most observers agree that poor food and working conditions, frequent delays in wage payments, and the widespread hazing of recruits were the primary factors.

The last is a long-standing problem. Rather than exerting close personal supervision of enlisted personnel, Russian officers have traditionally relied on senior conscripts to keep the junior ones in line. However, the senior conscripts have brutalized many of the junior conscripts—to the point that a number of them have committed suicide. Others have been killed. As recently as May a young soldier was beaten to death because he refused to mend an older conscript's soccer shoe. The army is aware of the problem, but ending it would require major changes in the training and conduct of officers and noncommissioned officers. There is little indication that the high command is prepared to make these fundamental changes. Meanwhile, it was reported that 50,000 young men evaded the draft in 1997, while more than 12,000 conscripts went AWOL rather than endure the brutality of barracks life.

The quality of those who do answer their draft notices has dropped considerably. In 1997, some 40 percent of new conscripts had not attended school or held a job in the two years before their military service. Furthermore, one in twenty had a police record and others were, according to the Russian defense minister, "drug addicts, toxic substance abusers, mentally disabled, and syphilitics."

Problems are also found at the junior-officer level. Not only are these officers resigning their commissions at an alarming rate, but competition among candidates for officer school (which once was intense) has dropped sharply. In 1989, for example, it was 1.9 candidates per space; in 1993, only 1.35. Recent comments by Russian officers suggest that it has since decreased even further. Moreover, by 1996 more than 50 percent of all junior officers had left the military as soon as their duty was completed in order to enter the business world. Why should they remain in a military that pays them about \$100 per month for doing a job that requires heavy labor and the physical discomforts that go with it? Poor salaries, an insecure future, inadequate family quarters and support institutions, and declining prestige have all taken their toll.

Given the problems facing the military, it is not surprising that morale is at an all-time low. Many military professionals no longer see any future in the armed forces. Pavel Felgenhauer, the highly respected Russian commentator on military affairs, has reported that senior officers have begun to tell journalists openly that Marshal Sergeyev is not fit to command the Russian army—public criticism that would have been inconceivable during the Soviet period. Even more troubling from the Kremlin's standpoint are the questions being raised concerning what officers would do if called on to support Moscow internally. A 1995 survey of 600 field-grade Russian officers illuminated doubts about the army's reliability. According to the survey, "officers were particularly adamant in their opposition to using the military to quell a separatist rebellion in one of the regions of the Russian Federation." Only 7 percent supported such an action. When asked if they would follow Moscow's orders if a Russian republic declared independence, 39 percent "admitted that they probably or definitely would not follow orders."

The survey's results confirm defense analyst Felgenhauer's comment in March 1998 that "sending the present Russian armed forces into any kind of action would be a serious error. Things could get worse than they were in Chechnya—the troops could rebel instantly."

To compound morale matters, the government has increased the income taxes soldiers must pay. At the same time, military officers whose incomes previously were not taxed must now not only pay this tax but also suffer a reduction in benefits such as free travel and a 50 percent discount on housing.

POLITICIZING THE MILITARY

The general breakdown in discipline and decline in morale has been accompanied by another major change in the post-Soviet Russian military. There has long been a misperception in the West that the Soviet military was highly politicized. Much depended on how one defined the term "politicization." If it referred to the effort of a party-state such as the Soviet Union to inculcate a particular political point of view in the hearts and minds of its troops, then the Soviet military was very politicized. Political officers and indoctrination lectures were part of the life of the Soviet soldier.

There is, however, another type of politicization: the involvement of military officers in politics. In this sense, Western military officers have been much more politicized than Soviet military officers. For example, American military officers often enjoy close ties with members of Congress, something that would have been inconceivable in the Soviet Union. Soviet officers were far more isolated from civilian society and, with the exception of a few at the very top, seldom became involved in the political process.

Since the end of the Soviet Union, Russian military officers have cast off this apolitical stance. Former Soviet (and Russian) generals such as Aleksandr Rutskoï, Boris Gromov, Aleksandr Lebed, and Andrei Nikolayev have become household names among those who follow politics in Moscow; all have taken the political plunge, with varying degrees of success. As far as civil-military relations

are concerned, this has increased the possibility that at some point active-duty Russian generals may move directly into the political realm. As for the military, it has further undermined cohesion as generals have begun to view themselves as political actors and sometimes find themselves on different sides of issues in public.

This does not mean that the Russian military is likely to intervene directly in the political process. The military itself is too divided internally to carry out a coup successfully. And although Aleksandr Lebed stands a better than 50:50 chance of winning the next presidential election (assuming it is open and fair), his election would be a case of a former general who used his military background to political benefit and who won office through the electoral process.

CAN IT BE REFORMED?

Military reform has been widely discussed in Russian military circles, but there has been little effort to make it a reality. The most ambitious and controversial plan is the one currently being implemented. Designed under Marshal Sergeyev's leadership, the plan divides military reform into two stages.

Under the first stage, which is to be completed by the year 2000, the military is to be reduced to 1.2 million troops. Reaching this level will require the discharge of thousands of soldiers. The maximum number of generals (in both the military and paramilitary units) is also to be cut to 2,300. Funds

Military reform has been widely discussed in Russian military circles, but little effort has been made to make it a reality.

must be found to pay those who are discharged, since Russian law requires that forcibly discharged soldiers receive a hefty separation allowance.

The reform plan also calls for the abolition of the position of commander in chief of ground forces, one of the most powerful in the Russian army. It will be replaced by a Ground Forces Main Department. The introduction of more mobile forces is called for as well. The plan also combines the air defense and air force into one service. Some 125,000 air force personnel will be discharged by the end of 1998, and a number of redundant offices and organizations have been combined in an effort to save money.

Stage two calls for even more ambitious changes. Space forces may be combined with the air force, military academies will undergo major changes both in curriculum and numbers, and there are suggestions that the military will be divided into conventional and strategic nuclear forces. This last change would lead to a blurring of service lines (each has both conventional and nuclear forces); opposition by more traditional military and navy officers is already evident.

The proposed changes to the nuclear forces come at a time when Russia is placing primary reliance on nuclear weapons as it restructures its conventional forces. Nuclear weapons are cheaper than conventional systems, and easier to maintain. The danger, however, is that by adopting a "launch on warning" strategy, even greater reliance is placed on Moscow's command-and-control systems as well as its missiles. After all, launch on warning means that as soon as Moscow detects an incoming missile, it has no alternative but to launch its own missiles in response. It does not have time to evaluate the situation and determine if the threat is real.

Unfortunately, radar systems no longer work as well as they did in the past, and the reliability of Moscow's aging missiles is a grave problem. There is a serious danger that these antiquated warning systems could lead the Kremlin to believe it is under attack when it is not. The September 1998 agreement by the United States to share missile launch data with Russia underscores America's concern about this deficiency.

A BLEAK OUTLOOK

Despite the introduction of reform measures, it is hard to be optimistic about the Russian military's

future. President Boris Yeltsin gives the impression that he neither understands nor cares about the state of the armed forces. He seems to tolerate the military and, if anything, appears more interested in the country's internal security forces—which are specially trained to deal with domestic conflict.

As for the reform process, it is true that for the first time the country has a plan and is attempting to implement it. The problem is that the military continues to fall apart in the process. As the West knows only too well, downsizing is expensive. As recently as this July, Yeltsin promised the military—again—that the government would find enough funds to cover the costs involved in reform. Whether he will follow through is open to question. As it stands, the newly combined air force and air defense forces are attempting to sell 600 surplus aircraft in an effort to raise money to help pay basic operating expenses.

Even if the reforms are fully carried out, it will be a long time before Russia has a military similar to that under the Soviet government. First, the equipment is so old that almost all of it will have to be replaced, a very expensive undertaking. Second, the hemorrhage of young officers from the military and the drop in prestige of military service mean it will be some time before the army is able to attract the high-quality people it needs.

The chaos present in the military is indicative of a greater problem: the instability that haunts Russia. This means that the Kremlin can only hope that it will not have to call on the military to protect it from internal or external enemies. What it needs is a honeymoon for the next 5 to 10 years, a period of foreign and domestic tranquillity in which it can rebuild its shattered armed forces. Unfortunately, the country's leaders seem to believe that they can ignore the military until the rest of the country recovers. While it would be wrong to rule out such a possibility, the instability that seems to reign throughout Russia suggests that this will not be the case.

There has been a tendency in some circles to ignore the role played by the military in many polities, including Russia. But if the military represents the last barrier against collapse and chaos, then the state of the armed forces is critical. For Russia, the situation is not encouraging. The Russian military may not yet have collapsed, but it is not far from doing so. ■

"Postcommunist Russia's half-hearted and often chaotic efforts to create a market economy in which private entrepreneurship would figure prominently have exacerbated" opportunities for corruption. The crux of the problem? "The state simultaneously exhibits too much and too little regulation in the exercise of its powers."

The Politics of Corruption

JOHN M. KRAMER

Corruption," President Boris Yeltsin asserted in a nationwide radio broadcast in April 1997, "threatens the very security of Russia" and "prevents the introduction of order in the country." Many of the president's fellow citizens share this assessment: in one recent national poll, respondents almost unanimously disagreed that order is "fundamentally ensured" in Russia today, with nearly 40 percent identifying pervasive government corruption as one of the root causes of this condition. Ironically, President Yeltsin himself does not escape this stinging indictment of the absence of official probity: only 9 percent of the respondents in another national poll considered "honesty" one of the qualities "most characteristic" of the president.

Political corruption in Russia bears a striking resemblance to the corruption found in the Soviet Union. The similarities include manifold opportunities for corrupt behavior arising from the state's massive role in regulating society; the pervasiveness of "family circles," wherein government officials collude among themselves and with criminal groups to plunder public wealth and avoid detection; a popular political culture that attaches little moral opprobrium to many forms of corrupt behavior; manifest defects in legislation to combat corruption; and an impotent official response to the problem.¹

Yet it is equally clear that the transition to a market economy and the abatement of totalitarian

political controls in postcommunist Russia have created vast new opportunities for corruption and formidable new challenges in combating it. The distinctive character of political corruption in Russia today derives precisely from its hybrid roots in the communist and postcommunist periods.

HOW EXTENSIVE IS THE PROBLEM?

No one knows with any certainty the scale of political corruption in any government, since its practitioners have a vested interest in concealing their illegal activities from public scrutiny. And in the case of Russia, several additional factors make it especially hazardous to offer any but tentative generalizations about the current scale of corrupt practices in the country.

First, much of the information on corruption comes from politicians far more interested in exploiting the issue for political gain than in discussing the subject dispassionately. Second, Russia lacks a comprehensive and clearly defined legal conception of what comprises the formal roles of public officials and what legal means are available to fulfill them. Until January 1, 1997, when a new criminal code came into force, the Russian Federation used as the basis for its criminal legislation the criminal code, promulgated on October 27, 1960, of the Russian Soviet Federated Socialist Republic—a code that was the product and instrument of a totalitarian state that placed minimal stress on delimiting and restricting the behavior of public officials. (Article 175 contained only two words—"giving bribes"—to describe the actions it prohibited.) The new criminal code does not fundamentally alter this vagueness, although Yeltsin has said that "a collection of ethical rules for state officials should be drawn up along with a state service code."

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¹For an analysis of political corruption under communism, see John M. Kramer, "Political Corruption in the USSR," *Western Political Quarterly*, vol. 30, no. 2 (June 1977).

Third, Russian officials readily concede that official data on political corruption provide little insight into its actual extent. Indeed, the Ministry of Internal Affairs (MVD)—whose bureaucratic mandate includes combating corruption—maintains that official data reveal less than 1 percent of actual corruption. In one sense, the difficulty Russia faces in compiling accurate data on corruption only mirrors the difficulty seemingly all societies encounter in this task. Yet, compiling the data is made substantially more difficult in Russia because many personnel charged with exposing corruption are themselves corrupt and criminally negligent in the execution of their duties.

While Russian officials often display considerable ingenuity in devising schemes to pursue private gain at public expense, their means to do so typically constitute variations on the age-old practices of bribery and embezzlement. It seems clear—even if we cannot definitively determine its incidence—that bribery is rampant. Many ordinary Russians certainly believe this to be so. Ninety-three percent of the respondents in a 1992 poll surveying public views toward corruption answered affirmatively when asked, “Do you agree that everything can be sold and bought in this country?” In a 1994 poll, conducted by one of Russia’s most respected polling organizations, when asked to compare the current level of bribery to that of the manifestly corrupt regime of Communist Party General Secretary Leonid Brezhnev, 47 percent of the sample felt that bribery was more prevalent today, 34 percent believed that the respective levels were about the same, and only 4 percent felt that Brezhnev-era bureaucrats were more susceptible to bribery than their present counterparts. Official data support these popular sentiments: according to a 1997 survey on the subject, government investigators determined that bribery influenced approximately one-half the decisions they examined on the allocation of state credits and the distribution of budgetary expenditures.

Although these data must be treated cautiously given the obvious difficulties involved in their computation, the available evidence does suggest that they are not necessarily hyperbolic. A look at two areas, the privatization of state assets and the administration of justice, will help to illustrate the extent of the problem.

A CLOSE CIRCLE OF “FRIENDS”

Corruption has riddled the process of privatizing Russia’s vast state-owned enterprises and other tan-

gible assets as postcommunist elites battle over the spoils of state property. Opportunities to influence the process through bribery arise precisely because public officials, not market forces, make the key decisions regarding what will be privatized and at what price. Such malfeasance often results in so-called *nomenklatura* privatization. Reminiscent of the “family circles” of the Soviet period, the principals involved in the privatization process are friends and acquaintances from their days as officials in the Communist Party. During the second stage of privatization in 1994 and 1995, for example, huge sections of the energy and natural resource complex (including Gazprom, the natural gas monopoly estimated to hold one-third of the world’s proven reserves of this fuel) were privatized under special state decrees that delivered billions of dollars in state assets to powerful political insiders, including Prime Minister Viktor Chernomyrdin.

Russian and Western analysts also contend that organized criminal groups, in collusion with corrupt officials, have laundered vast amounts of illegally acquired monies through the purchase of state assets undergoing privatization. Overall, the MVD estimates that 40,000 privatized enterprises have ties to organized crime (an estimate derived from the number of enterprises that avoided full-scale criminal investigations because of political pressure).

The 1997 assassination of Mikhail Manevich, the head of the city property committee in St. Petersburg, suggests how dangerous it can be to propose change in this system. In his last public interview, Manevich vigorously attacked the sweetheart insider deals that had been typical of the city’s privatization process and vowed that in the future city property would be sold to the highest bidder in open and competitive auctions. Earlier, Manevich reportedly had outraged many public officials and entrepreneurs by publicly promising to end the practice of leasing city-owned properties to private individuals at nominal rates of \$10 to \$14 per square meter for property that could command hundreds of dollars more on the open market.

Privatization in Moscow, which is directly under the control of Yuri Luzhkov, the city’s high-profile mayor, has proved especially controversial. Critics indict a system under which Luzhkov and many high-ranking Moscow officials sit on the boards of numerous joint ventures and other companies doing business with the city. Such blatant conflicts of interest extend to the Moscow city government itself, which holds an ownership interest in a number of commercial ventures that want to acquire state-

owned assets from privatization officials employed by the very same city government. Unsurprisingly, the scale of corruption is becoming a serious impediment to foreign investment throughout Russia.

Much of the malfeasance goes publicly undetected or unpunished because of family circles in which officials charged with rooting out corruption are themselves corrupt or are prevented by their corrupt superiors from executing their duties diligently. A "Clean Hands" campaign initiated in 1996 to root out pervasive corruption in the MVD already has led to the dismissal of 10,000 officials, including 3 deputies to the minister of the MVD and the deputy head of the ministry's main directorate in the Moscow region (they were charged with passing classified information to a criminal organization). Respected Western intelligence sources level similar charges of corruption against law enforcement personnel and have refused to share intelligence data with them for fear of compromising ongoing investigations.

FREE TO STEAL

The embezzlement of public resources for private gain encompasses a second broad type of corruption. As President Yeltsin phrased it in his April 1997 radio broadcast, "a lot of officials spend budget funds in the wrong areas. This means unpaid pensions, allowances, and wages." Indeed, then First Deputy Prime Minister Anatoly Chubais estimated that embezzlement and financial manipulation by managers accounted for "at least 50 percent" of wage arrears nationally. In 1996, a plurality of respondents (42 percent) in a national poll listed systematic wage and pension arrears as the "most important event of the year."

The transition to a market economy has opened vast new opportunities to embezzle public resources for private gain. Many state-owned factories now routinely resell their raw materials to private traders at prices substantially higher than the heavily subsidized prices at which they acquired them; this is more profitable than using the materials to manufacture goods that have no market. Similarly, industrialists—often after a suitable bribe—procure state financial credits at below-market rates of interest and then resell them at the market rate or convert them into hard currency.

Russia's chief military prosecutor, Valentin Panichev, recently admitted publicly that embezzlement is a "common occurrence" in the armed

forces, and that losses from the practice total billions of rubles annually. Criminal proceedings have been initiated against approximately 100 officers with the rank of colonel or higher, including 30 generals and admirals. In one typical example, prosecutors recently charged the rear admiral formerly in command of submarine forces in the Pacific fleet with directing a large-scale criminal enterprise that embezzled for private sale fuels and lubricants intended for the fleet—this at a time when shortages of these resources had idled many of the fleet's submarines.

Widespread corruption associated with military housing has become an especially contentious issue. Prosecutor Panichev reports that embezzlement of monies intended for housing construction is a principal reason why tens of thousands of military personnel are without apartments or are living

in substandard housing. In 1993 and 1994 alone, Russian generals are believed to have embezzled the equivalent of almost \$65 million from officially authorized military property sales intended to help pay for military housing. The July 11, 1996, *Moscow News*, an independent newspaper noted for its professionalism, reported that between 1992 and 1996 approximately 300 generals built dachas in the Moscow region—costing between \$200,000 and \$3 million each—using embezzled materials

and employing military personnel who had been promised early release from service. This exposé categorically asserted that the "Kremlin, the government, the attorney general, and the army's chief procurator all knew that generals were carrying out massive construction projects in the Moscow area using army money and soldiers' backs as many as five years ago. None of them did anything about it."

There is also massive theft of state-owned natural resources. The trade in illegal oil involves "greasing every palm between the oil wells in Siberia and the loading point" for export to the West, noted one participant. The trade is so lucrative that officials in the Russian oil industry have received more than \$100 million in bribes to facilitate it. The MVD estimates that in 1995 illegal exports comprised about 20 percent of the total volume of oil exported from Russia. Other natural resources are also traded illicitly. Estonia and Latvia are now among the world's leading exporters of copper and nickel—despite possessing no indigenous reserves of either

The transition to a market economy has opened vast new opportunities to embezzle public resources for private gain.

resource—thanks primarily to the huge volumes of these metals illegally exported from Russia through them to the world market.

These pervasive illegalities touch on an issue evoking increasing concern both in Russia and abroad: that there is now emerging in Russia a symbiotic relationship between organized criminal groups (the so-called Russian mafia) and corrupt political officials at all levels of government, with the latter serving as protectors for, and often as active participants in, the criminality of the former. Widely cited official estimates from the MVD support this concern: they indicate that bribery accounts for upward of 50 percent of organized crime syndicates' total expenditures, versus 33 percent in the mid-1980s.

THE LOGIC OF CORRUPTION

Even if one does not subscribe fully to Leonardo da Vinci's observation that man is a "coffer full of corruption," the number of public officials in all societies who commit corrupt acts suggests that defects in human character are a root cause of such behavior. Yet officials must possess both opportunity and incentive before they can or will engage in corruption. These two conditions are widespread in Russia today.

Opportunities for corruption abound in Russia for reasons strikingly similar to why they abounded in the Soviet Union: because the government retains the discretionary right to regulate numerous human activities while simultaneously failing to delimit with precision and clarity the formal roles of public officials. Obviously, a system in which officials wield broad, ill-defined, and mostly legally uncircumscribed powers is a system conducive to corruption.

Postcommunist Russia's half-hearted and often chaotic efforts to create a market economy in which private entrepreneurship would figure prominently have exacerbated these circumstances. In emerging private sectors such as banking, securities trading, and real estate, the task of elaborating a comprehensive, equitable, and enforceable body of regulatory law has only just begun; public officials can exploit the grey area for private gain. In sum, opportunities for corruption are rife in Russia because the state simultaneously exhibits too much and too little regulation in the exercise of its powers.

But corruption will occur only if there are incentives to engage in it. These incentives pervade Russia. Most compellingly, officials have strong financial incentives to engage in corruption. The best exam-

ples of this are undoubtedly the well-publicized cases of officials receiving vast sums, sometimes in foreign currencies, trips abroad, foreign cars, and the latest Western audio and video equipment, in return for favors and dispensations in the execution of their duties. Yet the seemingly ubiquitous exposés of rampant greed and avarice among Russia's officialdom—no matter their accuracy—should not obscure the reality that many public officials engage in corruption for petty sums in a desperate attempt to cope with the soaring inflation and catastrophic drop in the standard of living that have beset postcommunist Russia.

The citizenry itself possesses strong incentives to influence official decisions through illegal means, given the scale of government regulation, the broad discretion of officials in how to apply it, and the high demand for many government services in short supply. These circumstances account for much of the corruption that ordinary Russians experience in their daily lives as they try to persuade officials to provide services ranging from repairing faulty plumbing in state-owned apartments to providing burial plots at public cemeteries. Respondents in one recent poll named municipal housing authorities as the most corrupt government institution they had directly encountered.

That officials frequently attach little, if any, moral stigma to illegal acts provides another incentive for corruption. Many view public property, as did their counterparts in the Soviet Union and czarist Russia, as a target for plunder that belongs to no one. Other officials believe that accepting petty bribes and sundry emoluments is their just due since they barely eke out a subsistence existence on their state salaries. Officials at times also argue that they are entitled to bribes because their corrupt acts perform vital services for the state, such as bypassing bureaucratic bottlenecks to issue licenses promoting economic development.

The potential benefits of corruption almost invariably exceed its potential costs because the chances of detection and severe punishment are small. Relatively few officials are charged with bribery and even fewer are convicted of it. (This is especially the case with elected legislators in the Duma, and with many regional and local legislators as well, who enjoy blanket immunity from criminal prosecution that only a vote of the legislative body of which the accused is a member can rescind.) Those convicted are given sentences that do not involve deprivation of freedom. And, as President Yeltsin himself has admitted, only lower level offi-

cials are usually charged with corruption, while their superiors—whom Yeltsin has referred to as the “big sharks”—remain largely immune to prosecution. Although Yeltsin has promised that there will be no “untouchables” among officialdom in the fight against corruption, there is little evidence that the president has succeeded in fulfilling this promise.

MEASURE UPON INEFFECTUAL MEASURE

The Russian government has responded to corruption with Soviet-style “campaigns from above” featuring punitive legal and organizational measures, documents long on bombastic rhetoric denouncing corruption but short on concrete steps to eradicate it, and mostly ineffectual implementation of the initiatives that have been promulgated. Three decrees issued by Yeltsin in April 1992, June 1994, and April 1997 contain many of the announced measures to combat corruption. Critics have castigated these decrees, saying they were promulgated solely for propaganda reasons, lack substantive provisions for their implementation, and parrot the style of similar decrees under communism.

The response to corruption has also featured the establishment of several special interdepartmental commissions and task forces to coordinate the fight against it—initiatives again highly reminiscent of the Soviet period. These structures have been given overlapping functions with one another and with the regular law enforcement agencies, and in general have risen or fallen with the political fortunes of those who headed them.

The latest initiatives to combat corruption continue to reflect the highly politicized nature of this effort. In June 1994, President Yeltsin issued an edict entitled “On Urgent Measures to Protect the Population from Banditry and Other Manifestations of Organized Crime.” Critics from across the political spectrum charge that more than a few provisions of the edict—such as permitting the detention of suspects for up to 30 days without formal charges—are unconstitutional and threaten the civil liberties of the same citizenry the edict purports to protect. In response, Yeltsin subsequently modified, but did not rescind, several of the most controversial provisions of this decree.

In November 1997, the Duma, after arduous and prolonged debate, finally approved a law on corruption that critics variously assailed as “incompre-

hensible,” “disorderly,” and “wild.” Ironically, Yeltsin vetoed the bill on the grounds that it violated existing legislation and threatened civil liberties.

The president announced his own latest package of initiatives to combat corruption in his April 1997 nationwide radio broadcast in which he promised the Russian people that he had the “determination and political will” to achieve “victory over corruption” and would “carry this difficult fight to the end.” To date, the measures adopted and announced in this latest campaign represent, at best, a modest beginning. These measures include proposals that ranking officials will be required to make public financial disclosure statements, that state contracts will be awarded through open competitive bidding, that tax and

customs privileges promoting corruption will be ended, and that henceforth officials are to drive only Russian-made cars. Yeltsin himself told the Russian people in announcing this campaign against corruption that “I know you have doubts about our victory over corruption.” His skepticism appears warranted: the government announced in May 1998 that it was formulating yet another anticorruption program—presumably to replace its ineffectual predecessor—a draft of which would be forthcoming

for discussion and consideration.

CORROSIVE CORRUPTION

Edmund Burke, the Irish statesman and political philosopher, observed that “among a people generally corrupt, liberty cannot long exist.” Corruption strikes at the heart of a democratic polity, based as it is on the rule of law and the principle that public officials exist to implement popular sentiment, not engage in self-aggrandizement. In Russia, pervasive corruption has contributed to the citizenry’s cynicism about the honesty of public officials, the capacity of the judicial system to uphold the legal order, and the ability of elections to improve the national welfare. And popular demands for the restoration of “law and order” also promote the right-wing, xenophobic, and antidemocratic backlash already evident in Russia. Opportunistic politicians have made harsh law-and-order regimes centerpieces of their political platforms; they excoriate democracy and capitalism as foreign concepts responsible for the atmosphere of moral depravity in which Russian criminality and corruption flourish.

The essentials for limiting the opportunities and incentives for corruption. . . appear in democratic, not authoritarian, polities.

Since no panacea exists to eradicate corruption, governments can at best only limit the opportunities and incentives to engage in it. Efficacious initiatives to this end could include mandating that all government contracts be awarded on an open and competitive basis, requiring that selected public officials make full disclosure of their financial assets and sources of income, and promulgating precise prohibitions against conflicts of interest in the execution of official duties.

An effective fight against corruption will also require deeper structural reforms to eliminate those features of communist rule that persist and that promote official venality in postcommunist Russia. First and foremost, Russia must restrict substantially the highly intrusive role of government that it inherited from the Soviet Union, which provides seemingly boundless opportunities for corruption. President Yeltsin stated this argument especially succinctly in his April 1997 speech: "The foremost task is to curb the spread of the state apparatus." Whether the president can muster the political will and power to achieve this remains to be seen.

Naturally, Russians themselves must determine what should be the proper role of their government, and they undoubtedly will engage in contentious debate on this subject. Nevertheless, if they wish to significantly reduce the opportunities for corruption, they will limit government to those functions that the private sector cannot perform feasibly (maintaining national armed forces, for example) or that are required to promote the public good and facilitate the operation of the private sector (such as devising a body of law to regulate private banking services). In short, establishing a market economy in which prices reflected the dictates of supply and demand, not the political and personal preferences of policymakers, would eliminate many of the opportunities to engage in official malfeasance.

Second, Russia must circumscribe within the rule of law the formal roles of public officials and the policies they implement. This would limit the arbitrary and capricious exercise of power—a breeding ground for corruption—characteristic of much official behavior in the communist and post-communist periods. Paradoxically, Russia today, like the Soviet Union, promotes corruption by having too much regulation by government but too little regulation of public officials in the service of that government.

Third, Russia must strike down the pervasive Soviet-style family circles that protect corrupt officials. The best course would be to establish independent and structurally differentiated organs for the investigation, prosecution, and adjudication of official malfeasance.

Fourth, Russia must create a vibrant civil society—that dense network of independent organizations and institutions (mass media, trade unions, churches) that citizens use to pursue their public and private ends—to act in partnership with government to combat corruption. While this will be difficult to accomplish given the widespread cynicism and alienation that many Russians feel toward their government, it is critical to any successful fight against corruption.

The essentials for limiting the opportunities and incentives for corruption—a system of limited government, based on the rule of law, institutionally founded on a separation of powers, in partnership with a well-developed civil society—appear in democratic, not authoritarian, polities. Hence, the debate about how best to combat corruption in Russia is inextricably related to the larger debate about what will be the fate of democracy in that country. However the latter debate is resolved, it will have profound implications for the resolution of the former. ■

From the spread of cholera, tuberculosis, and AIDS to the heavy use of alcohol and tobacco, from the highest abortion rate in the world to a plummeting life expectancy, Russia is beset by health problems with which it is ill prepared to deal. David Powell surveys this bleak situation and concludes that a quick fix is unlikely: "the poverty of medical care in Russia is an expression of Russia's overall economic condition."

The Dismal State of Health Care in Russia

DAVID E. POWELL

Russia's health care system is in crisis; indeed, the problems facing it may well be insuperable. Virtually all health indicators show evidence of continuing decline, although there are hints that this pattern may finally have been arrested. Still, the deterioration in health care, which began when the Soviet Union existed, cannot be doubted.

RUSSIA'S VITAL SIGNS

The birth rate, which was already low under Soviet rule, has declined sharply since the Communist regime fell in 1991. In 1990 it was 13.4 births per 1,000 people, but by 1994 it had fallen to only 9.4 (the figure for the United States in 1994 was 15.7). Although the birth rate increased slightly to 9.5 in 1995, it resumed its downward trend in 1996, falling to 9.1 per 1,000.

The same phenomenon can be viewed from other vantage points. Between 1988 and 1993, the average number of children born to each woman in Russia declined from 2.2 to 1.4. Today, one out of four families is childless, and the proportion is growing: a 1996 survey found that 30 percent of women aged 18 to 44 did not want any children, while 41 percent intended to have just one. Furthermore, only 13 children are born for every 10 women of childbearing age; just to maintain the population by natural growth, that figure would have to be 21 to 22.

Lower birth rates can be attributed to many factors, though most demographers in Russia and

abroad see them as a result of low living standards and the uncertainties engendered by rapid socioeconomic change. Many Russian couples and single women go even further, citing their loss of hope that their country will experience meaningful economic and social improvement.

As birth rates have decreased, mortality rates, especially among men, have increased relentlessly. Male death rates are almost triple the European average, while among women the figure is one and a half times greater. Between 1987 and 1994, overall mortality rates in Russia rose by 40.4 percent. In 1994, the figure for men increased over the previous year from 12.4 to 15.8 per 1,000 men. The rate fell to 15.5 in 1995, and then fell again in 1996, when it reached 15.1 per 1,000 (the mortality rate for the United States in 1996 was 8.8).

To a certain extent, this phenomenon is simply a reflection of the age structure of the country's population. The UN and the World Health Organization (WHO) both classify Russia as an "old" country: in 1996, 16.7 percent of its population was 60 years of age or older. But mortality rates among virtually all age-cohorts—not just among the elderly—are exceptionally high. For example, between 1990 and 1995, mortality among men aged 40 to 49 climbed by 77 percent, from 9.2 per 1,000 to 16.3. It is this broader development, rather than the fact that the population is old, that makes the situation so disturbing.

Precisely why mortality levels have been increasing cannot be explained with certainty. The British economist Judith Shapiro (who served as an adviser to the Russian government during the 1990s) and others have hypothesized that increased stress associated with unsettled economic conditions is the major new factor behind this development. But no one has yet proved conclusively that, in Russia,

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rapid social change, stress, mental health, physical health, and mortality rates are causally linked. Still, some Russian observers contend that the immune systems of people whose living standards have fallen sharply in recent years have been weakened. At the same time, it is generally accepted that anxiety and stress often make people more susceptible to hypertension, strokes, heart attacks, and other cardiovascular problems, and this may well explain what has been happening in Russia.

Russia currently has the highest death rate for cardiovascular disease—among both men and women—in the developed world. According to a 1996 WHO study, the rate is 1,318 per 100,000 men, while for women it is 607 (the analogous figures in the United States, where it remains the leading cause of death, are 460 per 100,000 for men and 222 for women).

Second place is held by accidents, poisonings (especially those caused by contaminated “moonshine” and alcohol surrogates), and injuries. The death rate for able-bodied men is four times higher than it is for women: the former drink more, smoke more, drive more, are employed in more dangerous occupations, and are more apt to engage in risky behavior. In Western Europe, North America, and Japan, these causes account for roughly 5 percent of all deaths among working-age men; in Russia, the figure is between 22 and 25 percent.

The number of people who take their own lives has also been rising; most commentators link this phenomenon to the deteriorating economy, stress in the home and on the job, housing problems, and alcoholism (itself closely linked to depression). Between 1960 and 1993, the number of suicides per year increased 43 percent, from 39,000 to 56,000. In 1994, the number increased to about 61,000, and in 1995 it rose to more than 67,000.

A SHRINKING POPULATION

With birth rates falling and mortality rates increasing, the pace at which the population expanded dropped steadily through the 1980s; in 1990, the Russians came very close to zero population growth. The following year saw this pattern of ever-smaller increases finally turn into a decline, and since then the population has decreased almost every year. In 1993, the number of deaths exceeded the number of births by 30 percent, and in 1994 by 50 percent.

But there has been an unexpected, if modest, improvement in this area since 1994: as was noted,

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country.*

the mortality rate declined to 15.1 per 1,000 in 1996. Just what to make of this is unclear; whether the change is indicative of anything important, or simply represents a random shift, remains to be seen. Indeed, however macabre it may sound, “positive” developments may reflect the fact that the most vulnerable segments of the population have already died, and thus we are currently witnessing a classic example of “the survival of the fittest.”

Even now, the death rate exceeds the birth rate by 70 percent and will continue to do so for the foreseeable future. (According to some demographers, by the year 2000 there will be only one child born for every two persons who die.) Furthermore, unlike the situation in most industrialized countries,

fully one-third of the people who die are of working age (16 to 59 for men, 16 to 64 for women). Between 1990 and 1995, mortality levels for men and women of working age increased by 60 percent and 50 percent, respectively.

Russia appears to be the first industrial country in history to experience such a sharp decrease in births versus deaths for reasons other than war, famine, or disease. Understandably, both Russian and Western demographers have expressed alarm. In the words of one specialist from

Moscow, “Death is mowing down Russians right and left,” while the Russian Academy of Sciences has said that these figures “are unparalleled in the civilized world.”

The situation is highly charged politically. In April 1994, the Institute of Social and Political Research of the Russian Academy of Sciences predicted that the country’s population would fall by 50 percent in 50 years. A shorter-term prognosis provided by the State Statistics Committee in 1995 suggested that it would decrease by 5.1 million—from 148.3 million to 143.2 million—by the year 2005. The institute predicted that the proportion of ethnic Russians in the country could drop from 85 percent in 1994 to 70 percent by the beginning of next century.

LIFE CHANCES

Life expectancy for both men and women in Russia is far lower than in any Western country. Among men the change has been truly astonishing: life expectancy declined from 64.9 years in 1987 to somewhere between 57.1 and 58.3 years in 1995. It is not clear whether 57.1 or 58.3—or, indeed, some number in between—is correct; what is clear is that the figure for Russia is appallingly low. Even if we

were to use the higher number, Russian men would rank 135th in the world in life expectancy, and Russian women are in 100th place. Still, the fact that published reports indicate that life expectancy increased slightly in 1996 may (or, of course, may not) turn out to be significant.

The picture with respect to infant mortality is equally disturbing. After declining for several decades, levels in the Soviet Union began to increase in the 1960s. But the authorities, concerned about this retrograde trend, did not reveal how great the increase was until after Mikhail Gorbachev came to power in 1985. Official figures reveal that the infant mortality rate in Russia increased with alarming regularity, at least until 1994; since then, there has been a modest improvement. In 1985, the figure for the Soviet Union was 20.7 per 1,000 live births; by 1991, when the Soviet Union ceased to exist, it allegedly had fallen to 17.8. A year later, infant mortality in Russia was 18.1, and in 1993 it rose to 20. In 1994, however, it fell slightly, to 18.6, and in 1995 it dropped still further, to 18.1. But the turnaround has been of such modest proportions and has continued for such a brief period of time that it would be premature to make much of it.

Infant mortality is affected both by medical and nonmedical factors, and the latter almost always have a greater effect than the former. Nonmedical factors, which include general economic well-being, housing conditions, and nutrition, play an even greater role in the former Soviet Union than they do in Western Europe and North America. In view of the conditions prevailing in Russia today, the outcome is predictable: premature births, low birth weights, greater susceptibility to illness, and a high rate of infant mortality. In looking at figures for the Soviet Union, however, it is important to note that public health authorities traditionally used a highly idiosyncratic definition of infant mortality in order to understate the extent of the problem. At the same time, parents often did not (and sometimes still do not) report the deaths of their children to state registry offices, and deaths within the first week after birth frequently were listed as miscarriages. In the years before the Soviet collapse, the undercounting of infant mortality is believed to have been as high as 50 percent in certain areas of the Russian republic.

ABORTION AS BIRTH CONTROL

Popular attitudes in Russia and the United States toward contraception differ considerably. But the shortage in Russia of birth-control devices (IUDs,

diaphragms, pills, and, until recently, condoms) severely limits the ability of Russian women to prevent unwanted pregnancies, and this in turn gives them little choice but to undergo an abortion if they are to prevent the birth of an unwanted child.

Today Russia has the highest abortion rate of any country in the world. According to government data, in 1995 more than 2.75 million abortions were performed in Russia, or 200.4 abortions for every 100 live births and stillbirths. But official figures present only part of the picture. In particular, they do not take into account the steep rise in illegal, unrecorded abortions. Russian experts believe that for every "registered" abortion, at least one, and possibly as many as three, go unreported.

In the final years of Soviet rule, a medical journal reported that the average Russian woman underwent approximately eight abortions over the course of her life; this author has met women who have experienced fifteen, twenty, or even more. The fact that women resort to abortion so frequently has immense consequences for the number of children they bear and will be able to bear in the future, as well as the health status of both mother and offspring. For many women, especially those who have undergone a significant number of abortions, the procedure means hemorrhaging, secondary infertility, or even death. One Russian report, "On the State of Health of the Moscow Population in 1993," attributed 15 percent of all female deaths that occurred during that year to abortions.

A NATION DISEASED

Diseases that have been virtually eliminated in other advanced industrial societies continue to haunt the people of Russia. As a Russian journalist remarked in mid-1994, his countrymen "have been joined by uninvited companions—diphtheria, measles, whooping cough, and typhoid fever. Diseases of 50 years ago are also coming back—plague, cholera, and typhus. Why? Because society is sick: socially, politically, and economically."

This is not the only reason, of course. A shortage of vaccines and other drugs, a sharp fall in the amount of money allocated to prevent or treat disease, and the chaotic state of the medical services have also played important roles in this development.

There have also been major increases in the incidence and prevalence of other infectious diseases, such as salmonella poisoning, tuberculosis, hepatitis, sexually transmitted diseases, mumps, anthrax, poliomyelitis, dysentery, paratyphoid, and malaria.

There have even been cases of bubonic plague, an astonishing development in a country as economically advanced as Russia. (In 1994, one Moscow newspaper went so far as to introduce an "epidemics" column to inform readers of the latest threat to their health.)

As recently as August 1998, cholera bacteria were found in places as far from one another as Krasnodar and Chechnya (both located in the North Caucasus), Rostov-on-Don (in south-central Russia), Suzdal (not far from Moscow), and Moscow itself. Three years earlier, a particularly virulent strain of cholera was reported in the Siberian city of Omsk. Officials in Omsk and Suzdal were so concerned about the outbreaks in their cities that they decided to forbid swimming at local beaches. Three lakes in the area around Suzdal were also closed to swimmers, as was the Moscow River.

Medical experts have long understood the cause of these outbreaks and how to contain them. Most of Russia's lakes and rivers provide an excellent culture medium for the spread of cholera and other contagious diseases. Political, financial, and (in some instances) racist considerations, however, inhibit efforts to prevent and respond appropriately to outbreaks of disease. For many decades, public health officials have been almost helpless when they have come up against industrial, agricultural, and other production interests. Even now their reaction to a crisis is often slow and made up of half measures.

It is important to emphasize that the increase in infectious diseases accounts for only a small part of the rise in Russia's morbidity and mortality. Although spreading at an unusually rapid rate, the incidence of infectious diseases started from very low levels. This means that recent changes are more important in relative than in absolute terms. In any event, the incidence of the most widespread infectious diseases (with tuberculosis an important exception) began to decline toward the end of 1995, and this process continued through 1996. During the latter year, one could see strong evidence of a turnaround: indeed, a decline was recorded with respect to 41 out of 65 communicable diseases.

AIDS, THE NEW PLAGUE. . .

A particularly disturbing part of the communicable disease problem involves the human immunodeficiency virus (HIV) and acquired immune deficiency syndrome (AIDS). Largely isolated from

the rest of the world until the collapse of communism in 1991, Russia is unprepared for what has been termed the "plague of the twentieth century." But the plague has arrived, and all evidence suggests that what is currently a problem of modest proportions will soon spin out of control.

Most Soviet analysts were convinced that HIV/AIDS was a third world or Western problem. The only people at risk of becoming infected, they insisted, were homosexuals, bisexuals, prostitutes, drug addicts, those who led a "disorderly" sexual life (that is, were promiscuous), and, most important, black Africans. If the Soviet Union was not immune, it was nonetheless supposedly free of the various risk factors that were wreaking such havoc elsewhere.

As the Communist regime was beginning to unravel, however, some of the country's most prominent scientists started to express grave concern about the implications of HIV/AIDS for the Soviet Union. In 1989, for example, former Minister of Health Yevgeni Chazov declared that "the threat facing us [from HIV/AIDS] is no less dangerous than that of an ecological 'bomb' or nuclear weapons." Chazov is hardly an irresponsible man prone to flights of fancy. The fact that he expressed such alarm—and that public health officials throughout Russia do so today—is an indication that Russia is about to experience a massive tragedy.

As of January 1, 1997, 2,439 HIV cases had been officially "registered" in Russia. Six months later, the figure was almost twice as high, 4,643. By November 13, the number was 6,232, and more than half of these were said to have contracted the virus since the beginning of the year. Indeed, the number of men, women, and children added to the roster of HIV-positives in 1997 is greater than the total number reported since the virus first appeared in Russia in 1985.

On June 8, 1998, First Deputy Health Minister Gennadi Onishchenko asserted that the number of people registered as HIV positive was 8,313. Onishchenko added that, if current trends continue, Russia will be forced to spend its entire health budget on people with the HIV virus within the next few years "unless steps are taken now to stop the disease from spreading." A three-year federal program to educate Russians about the risk of contracting AIDS expired in 1996, just as the number of AIDS cases was beginning its exponential increase.

Of course, the number of cases registered with the authorities is minuscule in comparison with the

*Half of all
deaths in
Russia can be
attributed at
least in part
to alcohol.*

situation in the United States and other countries such as India, Uganda, Zaire, or Thailand. But the actual levels in Russia are almost undoubtedly higher—far higher—than published data indicate. Even official communications issued by the State Committee on Statistics note that the true number of infected individuals is at least ten times higher. Ignorance about this disease is widespread within the medical community, many members of high-risk groups avoid being tested, diagnostic equipment and techniques are notoriously poor, and the authorities are only beginning to face up to the need to gather and publish accurate information about both the virus and the disease.¹

Why is HIV/AIDS spreading so rapidly? The most important considerations would seem to be the fact that Russians are now free to travel abroad; academic exchanges have mushroomed; large numbers of foreign businesspeople, consultants, and students work or attend class in almost all regions of the country; and prostitution, drug abuse, and homosexual activity have come out of the closet.

It should also be noted that negligent medical practices (especially in children's hospitals) have played an important role in the spread of HIV/AIDS. Furthermore, the shortage of condoms, disposable syringes and needles, and other HIV/AIDS-related medical supplies has contributed to the growing tragedy. This circumstance continues to represent a major obstacle to implementing prevention programs.

The shortage of disposable syringes, although less pervasive today than a decade ago, represents a genuine menace to society. According to official statistics, until 1995, 80 percent of all HIV infections were attributable to sexual encounters (the number of patients diagnosed as having both syphilis and HIV increased fourfold between 1993 and 1995); only 3 cases of HIV had been registered among drug addicts between 1987 (when the authorities first began to report the number of patients infected by the virus) and the end of 1995.

Suddenly, in 1996, public health officials declared that the epidemiological situation had changed. During the first 11 months of that year, the total number of drug abusers infected with the

HIV virus was said to have jumped from 3 to 750. Almost all the new infections were attributed to the use of nonsterile syringes by men and women who injected drugs intravenously.

According to the ministries of health and the interior, the number of drug abusers in Russia has been growing rapidly. This, in turn, means that the HIV virus is spreading quickly. According to former Minister of Health Tatiana Dmitrieva's calculations, every addict who has contracted the virus will, on average, infect 23 other people. Should the epidemic continue to spread at such a rate, she declared in early 1997, by the year 2000 there will be 800,000 HIV cases in Russia. The projected figure has since been raised to 1 million.

Attributing recent developments almost exclusively to increased intravenous (iv) drug use, however, like changes in the total number of cases reported, violates even an elementary understanding of epidemiology and thus lacks credibility. In all likelihood, the authorities have known very little about the true situation ever since the virus appeared in Russia. Although they clearly know more now, their efforts to gather data remain uncertain, haphazard, and incomplete.

While officials in most parts of the country lack the resources (and, some would say, the imagination) to deal with the relationship between HIV/AIDS and iv drug use, several cities have begun an experiment aimed at curbing the spread of the virus through "dirty" needles. The first was Yaroslavl: starting in 1997, iv drug users in the city received disposable syringes and needles, free of charge, in exchange for used ones. Their benefactor was the Russian nongovernmental organization (NGO) Friends Help Friends, which has received money, advice, and supplies from the Soros Foundation. Needle exchanges represent an approach that is used in many Western cities, of course, but the Yaroslavl experiment was the first of its kind in Russia.

More generally, the government spends very little money on HIV/AIDS education and prevention programs. If published reports are to be believed, in 1996 the Ministry of Health received no funds to carry out prevention programs. In 1997, the budget called for a still paltry \$8 million to be spent on AIDS prevention and treatment, but by midyear the health ministry had received absolutely nothing.

... AND ALCOHOL, THE OLD

Approximately half of all adult men and almost a third of Russian women suffer some physical harm

¹Intravenous drug users, prostitutes, and homosexuals—who represent the great majority of HIV/AIDS cases in Russia today—are seen as pariahs, regarded with a mixture of disgust and fear. A particularly vivid example of this attitude emerged from a Soviet poll several years ago. One-third of all respondents urged that homosexuals be "re-educated," another third wanted them to be imprisoned, and the remaining third demanded that they simply be killed.

as a result of long-term drinking, and fully half of all deaths in Russia can be attributed at least in part to alcohol. Almost all experts in this field agree that there is nothing harmful about drinking in moderation. (There are, of course, exceptions: young children, pregnant women, and people suffering from certain kinds of illnesses ought to avoid any contact with alcohol.) But all individuals, however healthy they might be at first, run a risk of injuring themselves or others if they continue to drink heavily over a long enough period of time.

We have already spoken of the dramatic decline in life expectancy in Russia, especially among men. According to a leading Russian authority, alcohol is "the main culprit" in this decline, and most other analysts agree. In Russia today, alcoholism and the diseases associated with it are the third leading cause of death; only cardiovascular diseases and cancer are responsible for taking more lives. In fact, given the close correlation between heavy drinking and cardiovascular problems and cancer, many medical specialists are inclined to rank alcoholism first or second. Some have even termed alcoholism "the great killer," noting that the life expectancy of an alcoholic is typically 10 to 15 years lower than that of a nondrinker or social drinker.

Alcohol abuse is also linked to other societal ills. For example, it is involved in 80 percent of murders, 50 percent of suicides, 50 percent of motor vehicle accidents, and the vast majority of divorces. In 1996, approximately 35,000 Russian citizens, most of them male, died from alcohol poisoning. This figure was 25 percent higher than the 1995 level, and three times greater than the figure for 1990. Obviously, alcohol abuse is only one factor helping to explain high morbidity rates, mortality rates, suicides, accidents, and divorces, but it seems to be a singularly important factor.

SMOKING PERMITTED

About 66 percent of Russian men and 33 percent of women are smokers, compared to the world average of 47 percent and 12 percent, respectively. But while most Western nations have carried out large-scale attempts to curb smoking, Russian efforts have been desultory at best. As a result, Russian cigarette production and imports have risen 40 percent since 1986.

During the Communist period, the incidence of smoking-related diseases was extremely high in the Soviet Union and Eastern Europe. It remains so today. Indeed, the most recent data available indicate that the people of the former Soviet Union,

along with their counterparts in Central and Eastern Europe, smoke more than 700 billion cigarettes each year—40 percent more than are consumed in the United States—and the number continues to rise rapidly.

Tobacco use in Russia contributes significantly to increased levels of morbidity and mortality among the population. Smokers have a shorter life expectancy than nonsmokers—by 7 to 15 years, depending on how heavily they smoke. According to a May 1997 report by WHO, over the course of an average year, 280,000 Russian deaths—32 percent of all men and 5 percent of all women who die—are caused by tobacco-related illnesses. Thus, the death toll from smoking is 750 people a day.

Today, Russia imports substantial quantities of tobacco, as well as cigarettes themselves. At the same time, multinational tobacco companies have set up joint ventures with, or purchased equity positions in, local companies that produce cigarettes. Moscow supports this expansion, regarding these multinationals as sources of capital, technology, and jobs, while largely ignoring public health concerns.

Western tobacco companies claim they are actually improving the health of Russians, arguing that their filtered cigarettes are less dangerous than traditional domestic brands. In a statement reminiscent of those made for decades by tobacco industry spokespeople in the United States, the vice chairman of R. J. Reynolds' St. Petersburg division declared, "We're not teaching them to smoke. People here want to smoke, and we are providing them with what they want."

To combat the problem, the authorities have moved in two directions. They have introduced legal constraints limiting the freedom of smokers to purchase cigarettes or to light up in certain places, and they have launched propaganda and educational initiatives. The government's antismoking messages are, however, oversimplified and involve scare tactics; most research suggests that they have very little effect either on those who smoke or those who intend to take up the habit.

The government's attempts to curb smoking have angered the tobacco industry as much as they have pleased health officials. This is not to suggest that sales have plummeted or that advertising has ended: in fact, fully half of all advertising revenue today comes from cigarettes and alcohol. One estimate suggests that a ban on tobacco advertising could cost Russia between \$500 million and \$1 billion in Western investment over the next five years.

Thus, it is not surprising that tobacco products continue to be widely promoted.

RESUSCITATING THE SYSTEM

Many of Russia's public health problems are attributable to the parlous state of the nation's economy. In 1960, 6.6 percent of the Soviet Union's GDP was spent on public health; by 1985 the figure had fallen to 4.6 percent. Expenditures for medical care and physical fitness programs, as a percentage of the state budget, steadily declined through the years leading up to the Soviet Union's final collapse in 1991.²

The pattern has continued in Russia since it became an independent country. Between 1993 and 1994, the portion of the federal budget assigned to health care fell from an already minuscule 1.7 percent to a mere 1.6 percent. This year may (although because of conflicting reports we cannot be certain) represent the nadir in terms of public health spending. The proportion of the nation's GDP going to the medical sphere has also been contracting with each passing year. In 1992, it was 2.3 percent, lower than the figure for any other advanced industrial nation. Today, Russian sources put the percentage at anywhere from 1.6 percent to 2.6 percent. According to the most recent figures available (1995), Russia's per capita medical spending for the entire year came to the equivalent of \$20.37.

Recent negotiations with the IMF and other financial agencies have persuaded Moscow to reduce its overall level of government spending—including, unfortunately, spending on public health. What was once known as Russia's "safety net" has shrunk to a significant degree, and the constitution's explicit guarantee of "free medical care" is increasingly ignored. Clearly, if more money were available for the health sector, it would be possible to purchase more and better pharmaceuticals, medical equipment, and other supplies. And it would be possible to pay doctors, nurses, and auxiliary health care workers on time.

Yet whether the allocation of more money would actually make much of a difference is by no means clear. Inefficiencies, corruption, outmoded practices, a crumbling infrastructure in most parts of the country, inadequate training of medical personnel, and widespread shortages will not disappear overnight. Even the considerable volume of aid made available by Western governments, international financial agencies, NGOs, and concerned citizens has not led to much progress on what the Soviets used to call "the medical front."

Hospital-to-hospital and other exchange programs worked out with Western organizations may be the most useful form of foreign intervention. Training and retraining of physicians by Western experts, volunteer activities on the part of the International Red Cross and Red Crescent Societies, help from foreign medical associations and health-related charitable groups, the establishment of needle-exchange arrangements, education about the importance of practicing safe sex, antialcohol and antidrug programs—all of these seem to engage the interest of Russian experts and, to a lesser degree, ordinary Russians, including young people.

At the same time, there is reason to suspect that dealing with medical issues alone is not the most important way to improve health standards. The poverty of medical care in Russia is an expression of Russia's overall economic condition. A country that collects only 52 percent of the taxes it is due, and that in the first nine months of 1997 provided financing for only 65.2 percent of the health programs it drew up as part of the budget, is not likely to deliver the capital needed to reform and upgrade the medical care delivered to its people. What this means is that tax reform (with tax rates rationalized and lowered to encourage compliance) is vital, as is a genuine effort to prosecute those who engage in large-scale tax avoidance.

Tackling Russia's health crisis will also require a different mind-set on the part of the president, the prime minister, and other top government officials—and a greater readiness to cooperate and compromise with the legislature over social policy in general and the safety net and health care in particular. ■

²In the OECD countries, which include the major capitalist economies, spending on health care averages 7 to 8 percent of GDP. In the United States, the figure is currently around 14 percent.

“Although most observers have argued that political instability in Ukraine will occur because of Russia, it may instead be generated internally as a result of domestic policy choices. Will Ukraine have to undergo a severe crisis to understand that more of the same cannot work?”

Ukraine: The Muddle Way

DOMINIQUE AREL

When asked what they think constitutes the greatest threat to Ukraine's security, most Ukrainian experts point to economic decline. It is a view that has not been shared by the country's leadership, beginning with Ukraine's first two heads of state since independence in 1991. President Leonid Kravchuk did not think that economic problems required drastic change during his term in office between 1991 and 1994, and neither does incumbent President Leonid Kuchma (although he did for a brief interlude at the outset of his mandate). As a result, the Ukrainian economy continues to sink, with no politically realistic turnaround in sight.

At the same time, Ukraine's foreign policy continues to depart from Russia's to a degree few would have imagined four years ago. That Kuchma, elected on an "Eastern" ticket of closer links with Russia, would actually deepen the "Western" orientation of Kravchuk came as a surprise—especially to Ukrainian nationalists who had depicted him as someone who would sell out to Russian interests. This Western tilt, however, remains out of sync with Ukraine's more Eastern-oriented public opinion, a fact rarely acknowledged in foreign policy circles.

Meanwhile, all is quiet on the ethnolinguistic front, not because Ukraine has adopted a so-called civic conception of the state, but because the government's language policy remains ambiguous. Although Ukrainian is the only official language, the legal grounds for the public use of Russian remain unclear. Like Kravchuk, President Kuchma quickly understood that strong outward support for Ukrainian, mixed with ambiguity on language policy in eastern Ukraine, was the key to keeping a del-

icate linguistic truce. He was, however, far less ambiguous in his treatment of the Autonomous Republic of Crimea, the formerly Russian peninsula that essentially has lost all autonomy.

These three strands of Ukrainian politics—unwillingness to reform the economy, integration into Western security structures, and an ambiguously defined Ukrainian national state—have steadily developed since independence, producing a certain political stability. Is it reasonable to expect much of the same for years to come? Or is Ukraine headed toward serious change in at least one of these areas, or perhaps all three? Commentators often ridicule the doomsday scenarios of previous years, which anticipated the collapse of the Ukrainian state. But if doomsday scenarios are far-fetched, there is also a need to avoid the Sovietological mode of thinking of the early 1980s, which held that the Soviet Union could muddle through its problems indefinitely without paying a political price. More of the same might lead Ukraine to serious trouble.

ECONOMIC NONREFORM

Ukraine's economic performance has been dismal. Four years after President Kuchma announced a program of radical economic reform, no concrete structural change has been implemented. Unprofitable industrial enterprises and collective farms continue to be subsidized by the state. Very little privatization has occurred. A byzantine taxation system and a maze of regulations on domestic and foreign trade remain. Enterprises have found it more profitable to obtain tax exemptions through political cronyism, or to grease the palm of tax inspectors, than to contribute to the state coffers. Failure to privatize means that the state is not reaping revenues from the sale of privatized assets. As a result, the Ukrainian state continues to carry large budget deficits of more than 7 percent of GDP—three times

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the level acceptable to the IMF. Despite sustained pressure by the IMF, the World Bank, and the United States, this destructive cycle has not been broken.

The one policy that has changed over the years is the handling of the chronic deficit. The remedy, in 1992 and 1993, was to print more money. Ukraine did this to such an extent that it became the undisputed champion of hyperinflation in the postcommunist bloc, reaching a rate of 4,735 percent in 1993. With an economy dangerously out of control, the government finally realized that the printing presses had to be stopped. The solution was to curtail some industrial subsidies and stop paying workers. This began in the last months of the Kravchuk administration and has been consolidated under Kuchma.

Kuchma, however, had another option in hand: foreign loans. After the announcement of a much-delayed program of radical economic reforms in 1994, Western governments and international financial organizations negotiated loans with Ukraine. This vote of confidence enabled Ukraine to borrow on international bond markets. The purpose of the Western loans was to give Ukraine financial breathing space while it handled the immensely difficult task of structural change. Ukraine used a substantial part of this money to pay for energy imports and government salaries, but avoided the necessary structural changes. When faced with the need to pay back some of the loans, it borrowed even more, at higher interest rates. The IMF and World Bank lost patience and suspended their loans. This sent a signal to bond markets—whose trust in emerging markets was already shaken by the Asian financial crisis—that Ukraine was not creditworthy.

By mid-1998, Ukraine had put itself in a situation in which it could no longer borrow enough to reimburse its creditors, who were now pulling their money out of the country. In the view of many economists, Ukraine stood at the threshold of a major financial crisis. It was bailed out once more by the IMF for political reasons: the United States is nervous at the thought of an unstable Ukraine bordering Russia.

GOVERNMENT APATHY AND ECONOMIC DECLINE

Why is Ukraine so resistant to reform? The somewhat defensive explanations that Ukraine was crippled by the Russian/Soviet empire and by its lack of civil society have a hollow ring, since Ukraine is doing worse than most post-Soviet states. While it is true that Ukraine suffered from a deficit of competent cadres at independence (many talented people moved to Moscow during the Soviet era), a new cohort has come of age. The government, however,

employs precious few of them. The same unimaginative and largely unaccountable Soviet-era apparatchiks remain in place. As economist Anders Aslund, a sympathetic observer and former adviser to Kuchma, has pointed out, the “proverbial poor organization of the Ukrainian government as an impediment to economic reform is in fact a political choice[—]a choice to remain with bad government.”

The government does nothing because it feels little political pressure to drastically change its course. There is a reformist camp in parliament, but it also happens to be largely nationalist. In theory, nationalism and economic reform are not incompatible, and public opinion surveys show that the most nationalist constituency in Ukraine (located in western Ukraine) is also the most pro-reform. But in political practice, Ukrainian nationalists find it difficult to sustain their focus on economic problems; their attention is often absorbed by pressing “national” issues, particularly the Russian question. A deeper problem is that, in a context in which the largest party in Ukraine, the Communist Party, calls into question the very existence of an independent state, nationalists are loath to harshly criticize a government that, however incompetent economically, is committed to keeping Ukraine as far from Russia’s orbit as possible.

Parliament has not been favorable to reforms, and the July 1998 election of Aleksandr Tkachenko, an old party hack from the collective farm lobby, as speaker of the new parliament is not a step in the right direction. Yet, as Ukraine-watcher Sherman Garnett has pointed out, parliamentary obstruction is no excuse for presidential inaction. Whenever a Ukrainian president has applied tremendous pressure to Ukraine’s legislative body, he has had his way, as with the ratification of the nuclear disarmament treaty in February 1994, the adoption of the 1996 constitution, and, for that matter, the approval of the stillborn program of radical economic reforms. Lack of presidential will is the source of the problem. While the economy worsens, the Ukrainian elite is becoming immensely rich thanks to a state-induced (or state-tolerated) system of regional monopolies controlling the import and export of the most profitable resources, particularly energy and metals. Kuchma, although personally clean, is unable to muster the political courage to confront powerful vested interests.

DIVIDED LOYALTIES

In Ukraine, half the population speaks Russian as a first language and Ukrainian Orthodox Church believers outnumber Roman Catholics four to one.

The great majority of Ukrainian-speakers and Catholics are concentrated in the western part of the country. What role do these sociological and geographical realities play in the general foreign policy orientation of Ukraine? Very little, it turns out.

The official view in the country is that Ukraine, unlike Russia, is historically a European state that came under Russian imperial domination for many centuries and is now striving to rejoin its true cultural world—Europe. This core nationalist thinking was co-opted by Kravchuk and challenged by Kuchma during the 1994 presidential campaign. Kuchma stressed that “Ukraine is historically part of the Eurasian economic and cultural space.” He quickly shifted his emphasis once in power.

Although Ukrainian officials may speak of a “multi-vector” policy and a “strategic partnership with Russia,” the signs pointing to a Western tilt are unmistakable. The head of the National Security and Defense Council, Volodymyr

Horbulin, and the last two ministers of foreign affairs, Hennadiy Udovenko and Boris Tarasiuk, have repeatedly hinted at Ukraine’s desire to integrate with NATO, independent of Russia’s relations with the security alliance. Ukraine refused to sign the Commonwealth of Independent States charter and continues to semantically dilute its status within the organization of former Soviet republics, from “associate member” to “state present at the CIS foundation.”

Ukraine’s fundamental goal has been to gain recognition from Russia—recognition that it legitimately exists as an independent state and that it is not merely an appendage of Russia’s great power interests. Its strategy has been to engage Russia bilaterally (as opposed to within the multilateral

forum of the CIS) while seeking Western support. The strategy has so far paid off. Because they could not formalize their “special relationships” with NATO until they had settled their territorial disputes, Russia and Ukraine signed a treaty in May 1997 in which Russia recognized the territorial integrity of Ukraine for the first time.

In the long run, Ukraine must reconcile its foreign policy orientation with two enduring realities. The first is economic. Ukraine remains dependent on Russia for its energy needs, relying increasingly on natural gas it cannot afford. Despite a 1995 IMF-

negotiated debt-rescheduling agreement with Russia, Ukraine continues to miss payments to Gazprom, the Russian energy company, and has accumulated additional debts in excess of \$1 billion. Ukraine’s trump card is that Russian natural gas pipelines supplying European customers pass through Ukraine and therefore Russia cannot cut Ukraine’s sup-



ply. However, Russia has plans to build an alternative route through its more reliable neighbor, Belarus. Ukraine has tried to find other sources of energy, lately in the form of an oil route from Baku, Azerbaijan, through Odessa, but without success. Meanwhile, Russia is pressuring Ukraine to pay in equity by allowing Russian companies to become part owners of Ukraine’s gas distribution system.

More generally, the Ukrainian government’s unwillingness to carry out economic reform contradicts its quest for European integration, since candidates for integration must satisfy minimum political and economic criteria to qualify. Ukraine cannot forever bank on its geopolitical importance—the state that keeps Russia’s regional foreign policy

interests in check—as a way to bypass reform and maintain Western support. It cannot simultaneously evolve as the economic equivalent of Pakistan while claiming to belong to Europe and not Eurasia.

The second enduring reality is cultural. Religious and linguistic affinities with Russia may not affect elites' policy choices, but they certainly color popular orientation. Ukrainian polls in 1997 consistently showed that an Eastern orientation is favored by twice as many Ukrainians as a Western orientation. This is not to say that a majority favor reunification with Russia, an option that is supported, at most, by 30 percent of the population. An Eastern orientation means strengthening the CIS and making Ukraine's borders more open than they are now. On military issues, more Ukrainians lean toward the CIS than NATO (with less than a quarter in favor of joining NATO without Russia), but the dominant view calls for neutrality, with Ukraine striking a balance between NATO and Russia.

All these factors, along with the general disdain of post-Soviet elites for public opinion (except at election time), blunt whatever impact popular sentiment may have on state policy. The question is whether this constitutes a permanent feature of the system or one open to challenges if stark policy choices are made. Could the system withstand the test of Ukraine becoming a NATO member without Russia? No one in Ukraine really knows.

THE POLITICS OF LANGUAGE

Ukraine is not building a "civic" state because such a state is a figment of theorists' imagination. All states have strong cultural identities, generally revolving around a dominant language and state symbols. This is certainly true of France, the United States, and most other Western states. Some states may be more ethnic, in the sense of not permitting other groups to assimilate into the dominant group or, on the contrary, more intolerant, by forcing minorities to assimilate. But all strive to maintain a dominant culture.

Ukraine is split equally between Ukrainian-speakers and Russian-speakers (with a majority of the latter claiming Ukrainian ethnicity). The division is socially asymmetrical, however; Russian is the language of the large cities (except in western Ukraine), while Ukrainian has long been associated with the village, and therefore perceived as low status. As in Quebec or Flanders, to give two Western examples, the language project in Ukraine is a quest to make the low-status language the dominant language of the state.

Ukraine's greatest challenge is to make Ukrainians speak Ukrainian. This requires a revolution in the school system, since before independence most urbanites were educated in Russian. It is a generation-long process. The early signs are promising, with enrollment in Ukrainian schools in cities such as Kiev, Dnipropetrovsk, and Odessa up substantially. Ukrainian-language instruction in universities is also progressing, and administrators are increasingly enforcing the rule that entrance examinations to higher educational institutions be given in Ukrainian. Meanwhile, the language of documentation in state institutions is now mostly Ukrainian, although the oral language of bureaucrats is still mostly Russian.

After years of debate, non-Communist russo-phone elites have accepted that it is not politically possible to grant Russian equal status to Ukrainian at the central level because it would sap the incentive to learn Ukrainian as a useful language. What has yet to be established is whether Russian should have an official status at the regional level, especially in provinces in eastern Ukraine, where Russian-speakers are concentrated. Official status would give Russian-speakers the right to communicate with and receive services from the state in Russian. The four legal documents dealing with language that have been adopted in the past decade—including the constitution—either contradict each other or omit the issue altogether. Still, 80 percent of Ukrainian citizens support granting official status to Russian and Ukrainian at the regional level.

A successful language revival in eastern Ukraine could create more political trouble on the language question. If a new generation of Ukrainian-school-educated cadres were able to consolidate the use of Ukrainian in regional offices, the largely russo-phone population might mobilize to demand equal status for Russian (demands have been sporadic so far, since the threat is only potential). Will Ukraine allow its eastern half to remain substantially Russian-speaking? The signs are not promising. Educational authorities have appropriated the nationalist premise that Russian is a "foreign" language in Ukraine, which hardly concurs with the idea that Russian-speakers have linguistic rights.

The prospects in Crimea are not very promising either. Crimea is the only province in Ukraine with an ethnic Russian majority, and the only one that once belonged to Russia (until 1954). As nationalist sentiments began to rise under Soviet President Mikhail Gorbachev's rule, it demanded and obtained "autonomous" status within Ukraine.

After Ukraine's independence, however, it twice threatened, in 1992 and 1994, to secede, until it was finally brought under virtual presidential tutelage by Kuchma.

Since 1995, Crimea has been autonomous only in name; all important decisions are made in Kiev, or by officials reporting to Kiev. The region's parliament has been emasculated on the (probably correct) assumption that fully functional parliaments in ethnically differentiated border areas serve as the organizational focal point of separatist forces. Yet suppression alone is not likely to produce long-term stability, and must be accompanied by counterbalancing measures to underscore that Crimea is "different."

A critical measure in this regard is to guarantee Crimean elites access to power in Kiev and to economic assets in Crimea. But elite politics in Kiev has been a high-stakes game of exclusion, with one regional clan attempting to grab all the power. (In the latest development, the Dnipropetrovsk clan in control of the government has taken over Odessa, pushing out the locally dominant clan.) The politics of exclusion is risky whenever disgruntled elites can mobilize people along ethnic lines, as in Crimea. Polls continue to show that the majority of Crimeans have secessionist leanings.

The triangular nature of Crimean ethnic politics—Russian, Ukrainian, and Crimean Tatar—complicates matters further. The Crimean Tatars have been the tactical allies of Kiev in the battle against Russian separatism, although the curtailment of Crimean autonomy has inadvertently victimized the Tatars as well. In 1994, the Crimean parliament allowed all Tatars to vote in the parliamentary election, irrespective of citizenship (many were still Uzbek citizens). In 1998, Crimea lost the power to define its own election laws and the Ukrainian parliament refused to allow noncitizens to vote, triggering massive demonstrations.

Kuchma vetoed a law that would have allowed proportional representation in the Crimean parliament because he thought that it would magnify the Russian separatist presence. His gamble paid off, but it also meant that Tatar representation was almost nil, since Tatars are not concentrated enough to elect deputies in majoritarian districts. The growing political frustration of Crimean Tatars has led to a symbolic shift that worries Ukrainians, namely, the appearance of Islamic flags and Chechen-like dances during demonstrations. Political violence may be a remote possibility in Donetsk, but not in Crimea.

A CRISIS OF ITS OWN MAKING

Ukraine has pursued a three-pronged policy of avoiding economic reforms, steering clear of any meaningful integration with Russia, and postponing a determination of the status of the Russian language and Crimea. The writing is now on the wall. Geopolitically and culturally positioned between two worlds, Ukraine must define itself somewhat ambiguously to balance out East and West, Russian and Ukrainian. But the balancing act requires a stable environment. Perversely, the dire economic situation has produced a stability of sorts in the past four years. The onset of a major financial crisis like that afflicting Indonesia—which appears quite plausible if Ukraine continues to drift economically and the West loses patience—would place the country in uncharted waters.

Ukraine has ethnic, regional, and linguistic fault lines, and nobody knows how, or whether, they will become active because of economic turmoil. The Russian-speakers of the east have not mobilized since independence, and maybe never will. The Russian-speaking miners of the Donbass region have already seen their standard of living drop dramatically and perhaps are beginning to understand that nothing can salvage the mining industry. Russia's economy may also plunge further into a brutal financial crisis, canceling any attraction it may have for frustrated Easterners. Moreover, Ukraine did not collapse in 1993 and is unlikely to do so. But it could plunge into political instability.

The point is not that Ukraine is necessarily headed toward disaster because of its regional and ethnolinguistic makeup. It is that the relative stability it has achieved in past years is being mortgaged by the short-sighted policy of its elites. There is no question that an economically disabled Ukraine would please Russia, which has never fully reconciled itself to Ukrainian independence. A cash-starved Ukraine may have to give the green light to powerful Russian business interests to buy up equity in Ukraine, reintegrating Ukraine into the Russian fold in ways unimagined by the unreconstructed Communists. This would incense the nationalists, a minority constituency in Ukraine yet by far the easiest to mobilize.

Although most observers have argued that political instability in Ukraine will occur because of Russia, it may instead be generated internally as a result of domestic policy choices. Will Ukraine have to undergo a severe crisis to understand that more of the same cannot work? ■

BOOK REVIEWS

WHOSE RUSSIAN REVOLUTION?

Democratization and Revolution in the USSR, 1985–1991

By Jerry F. Hough. Washington, D.C.: Brookings Institution Press, 1997. 542 pp., \$59.95, cloth; \$26.95, paper.

Chechnya: Tombstone of Russian Power

By Anatol Lieven. New Haven, Conn.: Yale University Press, 1998. 436 pp., \$35.

THE RUSSIA THAT EMERGED from the fall of communism in 1991 has always been a bit suspect. The revolution that ended the Soviet Union was exceptionally bloodless and peaceful for a country whose leadership—for more than a few Sovietologists in this country and at least one president—represented the focus of evil in the modern world. How could the oppressed so easily overthrow such diabolical oppressors? And isn't it odd that the land whose gulag archipelago disappeared tens of thousands has never focused the nation's attention on the crimes of the past as South Africa's Truth and Reconciliation Commission has? Just what kind of revolution was this?

For Jerry Hough, it was a revolution as thoroughgoing as the Russian Revolution of 1917 and even more sweeping in its political and economic transformations than the French Revolution of 1789. But, he argues in *Democratization and Revolution*, it was a revolution from within—a top-down revolt that was a battle of elites centered on a titanic struggle between Mikhail Gorbachev and Boris Yeltsin. More fundamentally, it was a revolution that came about because those in control of the party-state had lost faith in the ruling ideology and found personal enrichment at the state's expense a greater calling. Communists became capitalists in 1991 not because of a conversion, but because capitalism offered a way to legitimize personal gain.

Of course, in making this argument Hough must deal with the dominant perception that it was pressures from below, especially restive nationalities, a newly energized civil society, and the pervasive influence of the media, that caused the Soviet Union's inevitable disintegration once Gorbachev loosened the totalitarian controls that had prevented these forces from coming to the fore. He does this less by offering individual counterargu-

ments than by noting that the "objective" conditions of state strength—a strong army, a government that still totally controlled the economy, however enfeebled—were not in jeopardy. "The problem was not the weakness of the state as such, but the weakness of the state of mind of those running the state." And nowhere was this weakness more apparent than in Gorbachev's aversion to the use of force to control the "tiger" he had unleashed, an aversion that Hough finds difficult to understand and that remains a major unanswered historical question.

The evidence Hough brings forth to bolster his argument composes the bulk of his book; only readers with a strong taste for a political scientist's reconstruction of the past will find an easy go of it. Anatol Lieven makes the argument much more directly and succinctly: "Unlike in Eastern Europe or the Baltic states, the processes within Russia that contributed to the destruction of the Communist system and the Soviet Union were predominantly elite-led and dominated." Lieven, like Hough, finds an elite that had jettisoned ideological commitments for the pursuit of personal gain through clientelism and rent-seeking behavior years before perestroika and glasnost were unleashed. True, there were protests, but the major events that led to the Soviet dissolution and the rise of the new Russia were not initiated or propelled by mass movements (neither Lieven nor Hough fully grapples with contrary interpretations or evidence, such as David Remnick's *Lenin's Tomb*).

For Lieven, however, this was a "passive revolution," one in which although "many of the personnel have stayed the same, the basic economic relations in society have been utterly transformed." The old nomenklatura may lay claim to much of Russia's industrial base, but it must share power with a new force of robber barons who have emerged from the "privatization" process.

Lieven offers a penetrating discussion of how this has happened and how Russia functions today—while at the same time providing a riveting account of Moscow's attempt to crush the Chechen secession. He has succeeded in writing an extremely perceptive, provocative, and original work on postcommunist Russia.

William W. Finan, Jr.

THE MONTH IN REVIEW

August 1998

INTERNATIONAL

US Embassy Bombings

Aug. 7—Bombs explode outside the US embassies in Nairobi, Kenya, and Dar es Salaam, Tanzania, at least 80 people, including 8 Americans, are killed, and another 1,600 wounded; there is no immediate claim of responsibility for the attacks.

Aug. 10—The number of deaths in the 2 bombings climbs to 202, with more than 5,000 wounded; 12 Americans are confirmed dead.

Aug. 16—In Nairobi, Kenyan police and US FBI agents question Mohammed Saddiq Odeh, who was deported by Pakistan to Kenya yesterday on suspicion that he participated in the bombings, Odeh says he is a follower of Osama bin Laden; the US says bin Laden is a major financial supporter of international Islamist terrorism.

Aug. 19—The New York Times reports that US officials are urging Afghanistan's fundamentalist Islamic Taliban government to turn over bin Laden, who has been given refuge by the Taliban since 1996, yesterday the Taliban's leader, Mullah Mohammed Omar, vowed to protect bin Laden.

Aug. 20—US navy ships fire approximately 75 cruise missiles from positions in the Arabian and Red Seas, striking targets in Sudan and Afghanistan, US President Bill Clinton says the attacks are in retaliation for the Kenya and Tanzania bombings, the US Defense Department says the sites included an extensive terrorism training complex in Afghanistan, 94 miles south of Kabul, and a factory capable of producing chemical weapons, near Khartoum, Sudan, Clinton and his national security team link both sites to bin Laden and claim that without the strikes, more anti-American terrorism was "imminent."

Aug. 22—The New York Times reports that 10 Sudanese have been hospitalized because of injuries sustained in the strike on Khartoum; rallies protesting the attack took place throughout Khartoum today.

Aug. 23—The Taliban say that 21 people were killed in the strikes on the alleged terrorist training complex south of Kabul.

Aug. 24—In Washington, government officials say they have evidence that Empta, a precursor chemical to the nerve gas VX, was being produced at the Khartoum plant the US attacked 4 days ago; the officials say the evidence was obtained months ago in the form of a soil sample taken secretly just outside the facility.

Aug. 28—Mohamed al-Owhali, a suspect in the embassy bombings, arrives in the US, Owhali was detained in Nairobi by Kenyan police on August 9; he has reportedly told investigators that he was trained at camps in Afghanistan run by bin Laden, Mohammed Saddiq Odeh, the other suspect in custody, is still being held in Nairobi and is to be flown to the US soon.

The New York Times reports that the CIA, before the missile attacks, did not make clear to senior US military officials that the Khartoum complex, now known to be a pharmaceutical plant, produced a large share of the medicine used in Sudan and had a UN contract, according to the Times, several nongovernment chemical weapons experts have said that Empta is similar to several commercially available pesticides and herbicides and that the single soil sample that tested positive for Empta, if not well preserved and promptly tested, could have been misidentified as containing the chemical

Aug. 31—The New York Times reports that a total of 258 people were killed in the embassy bombings.

AFGHANISTAN

Aug. 8—The ruling fundamentalist Islamic Taliban capture the northern city of Mazar-i-Sharif, the last major city held by anti-Taliban forces.

Aug. 22—An Italian army officer working for the UN Special Mission to Afghanistan, Carmine Calo, dies from wounds received in an attack on UN workers 2 days ago in Kabul by unidentified men, the murder was apparently in retaliation for the August 20 US strikes on Afghanistan and Sudan; 1 other UN worker was wounded; 4 suspects, none Afghani, have been arrested by the Taliban.

ALBANIA

Aug. 16—The US closes its embassy in Tirana and evacuates its diplomats, citing fears of a possible terrorist attack by Islamic militants.

Aug. 23—US security personnel kill an Albanian police officer who was apparently trying to enter the closed US embassy compound.

ALGERIA

Aug. 31—An explosion at a marketplace in Algiers kills at least 17 people and wounds 60; the government suspects Islamic militants.

ANGOLA

Aug. 24—The government confirms that it has sent troops to aid Congo's President Laurent Kabila in his attempt to suppress a Tutsi-led rebellion that began early this month.

BURMA

Aug. 14—Eighteen foreign activists detained 5 days ago for distributing pro-democracy literature are sentenced to 5 years of hard labor; the government immediately suspends the sentence and says it will deport them instead.

Aug. 24—Daw Aung San Suu Kyi, the head of the country's major opposition group, the National League for Democracy, ends a 13-day sit-in in her car 20 miles east of Rangoon; she staged the sit-in to protest the military's refusal to allow her to travel freely and to press the current military regime to allow the parliament elected in 1990 to convene.

CAMBODIA

Aug. 5—The national election commission declares Hun Sen's ruling Cambodian People's Party (CPP) the winner of the July 26 elections, with 41.4% of the vote, the royalist Funcinpec Party of Prince Norodom Ranariddh won 31.7%, and the Sam Rainsy Party of former Finance Minister Sam Rainsy received 14.3%; 36 smaller parties took the remainder of the vote, turnout was over 90%, the commission is conducting a recount in several districts because of allegations of fraud made by Rainsy and Ranariddh; Hun Sen seized power in a July 1997 coup, ousting Ranariddh as his co-prime minister.

CANADA

Aug. 20—The Supreme Court announces in a unanimous opinion that if a majority of the francophone province of

Quebec should want to secede, it would be required to negotiate the terms of secession as an amendment to the Canadian constitution; the court also finds that there is no right to unilateral secession in international law except for colonies or oppressed groups—conditions, the court rules, that do not apply to Quebec.

CHINA

Aug. 30—The government releases dissident Wang Youcai to house arrest after 7 weeks in detention. Wang, a student leader at the 1989 Tiananmen protests, was arrested for attempting to form an opposition party.

CONGO

Aug. 3—Rebel troops, led by Congo's Tutsi minority, seize several cities in the eastern part of the country and clash with government troops in Kinshasa, the capital; Congolese Tutsis, along with Rwandan army soldiers and other Tutsis armed and trained by Uganda and Rwanda, formed the core of the rebel force that brought President Laurent Kabila to power in May 1997.

Aug. 7—Kabila meets with a South African delegation in the southern city of Lubumbashi and later with regional leaders in Zimbabwe to ask them to press Rwanda to end its support of the rebellion; the South African delegation affirms its support for Kabila's rule.

Aug. 13—The rebels seize the Inga hydroelectric dam in the southwest and cut all electricity to Kinshasa; the rebels also issue a communiqué from their headquarters in Goma saying they have taken the western cities of Matadi and Boma.

Aug. 16—Kabila travels to Angola to ask President José Eduardo dos Santos for Angolan military support against the rebellion.

Aug. 19—After a 2-day meeting in Harare, Zimbabwe, of the 14-nation Southern African Development Community (SADC), Zimbabwe announces that it will provide aircraft, weapons, troops, and other support for Kabila's government.

Aug. 22—In Pretoria, South Africa, Kabila and Zimbabwean President Robert Mugabe fail to attend another meeting of the SADC headed by South African President Nelson Mandela; Mandela had called the meeting in an attempt to negotiate a cease-fire between Congo's rebels and government forces.

Aug. 23—Government troops and their allies recapture a key military base on the Atlantic coast; the rebels seize the eastern city of Kisangani, the country's 3rd largest.

Aug. 27—Fighting outside the capital diminishes and the government claims victory over the rebels; residents and government troops carry out "popular justice" throughout Kinshasa, brutalizing and executing several rebels and suspected rebels.

CUBA

Aug. 28—Prominent dissident Reinaldo Alfaro García is sentenced to 3 years in prison; the government says he sent "false information" to an anti-Castro radio station in Miami.

INDIA

Aug. 2—Indian and Pakistani forces trade artillery fire in Kashmir; more than 80 people have been killed in border skirmishes in the disputed region in the past several days.

Aug. 3—Suspected Muslim guerrillas from Kashmir kill 34 people and wound 11 in predawn attacks on 2 work camps in the Indian state of Himachal Pradesh, which borders Kashmir.

Aug. 5—Artillery exchanges in Kashmir kill 18 people and wound 17 others.

INDONESIA

Aug. 5—After talks at the UN in New York, Foreign Ministers Ali Alatas of Indonesia and Jaime Gama of Portugal announce that

their countries have agreed to an autonomy plan for the territory of East Timor, which was abandoned by Portugal in 1974 and subsequently annexed by Indonesia; the plan would grant the Timorese local self-government; Indonesia would retain control over military and foreign affairs.

Aug. 6—*The New York Times* reports that mass graves were discovered recently in Aceh, a province on the island of Sumatra; human rights groups say they suspect the bodies are those of victims of the army when it suppressed a rebellion in Aceh in 1990 and 1991.

Aug. 12—A military tribunal sentences to short prison terms 2 officers whose troops opened fire on antigovernment student protesters in Jakarta in May, killing 6 people and setting off days of rioting; the protests and riots led to President Suharto's resignation on May 21.

Aug. 24—General Wiranto, the armed forces chief, dismisses Lieutenant General Prabowo Subianto and says he could face a court-martial in the abduction of 25 or more dissidents earlier this year; Prabowo is a son-in-law of former President Suharto.

Aug. 29—A government fact-finding team says it has found no proof of rapes during the massive rioting in May that led to Suharto's downfall; human rights and women's groups have said that at least 168 ethnic Chinese women and girls were raped in what may have been an organized campaign.

Aug. 31—Mobs burn buildings, clash with police, and attack ethnic Chinese in Aceh in the most serious unrest since the riots in May; the violence was touched off by bitterness toward the military, which is accused of massacres and other rights abuses in Aceh.

IRAQ

Aug. 3—In Baghdad, the government rejects a proposal to accelerate arms inspections that had been made by Richard Butler, the head of Unscorm, the UN special commission overseeing the dismantlement of Iraq's weapons of mass destruction; Iraq has not provided Unscorm with any new weapons information since May.

Aug. 5—The government says it is suspending all cooperation with Unscorm and effectively demands Butler's dismissal through a restructuring of the commission; the action violates a February agreement between President Saddam Hussein and UN Secretary General Kofi Annan under which Iraq pledged to "cooperate fully" with Unscorm and the International Atomic Energy Agency and grant them "unrestricted and unconditional access" to sites in Iraq.

Aug. 20—The UN Security Council votes unanimously to renew economic sanctions on Iraq.

Aug. 26—Scott Ritter, chief of Unscorm's weapons inspection team, resigns, citing the failure of the US and the UN to allow the team to proceed aggressively with inspections.

IRELAND

Aug. 6—The government frees Thomas McMahon, an Irish Republican Army guerrilla convicted of killing Lord Mountbatten, his grandson, and 2 other people in a 1979 bombing; the release comes under a provision of the Northern Ireland peace agreement signed in April.

ISRAEL

Aug. 22—Israeli soldiers clash with Palestinians in Hebron, 1 Palestinian is wounded, the clashes were touched off by the killing of a Jewish settler by a Palestinian 2 days ago.

Aug. 25—Guerrillas in southern Lebanon fire rockets into northern Israel in apparent retaliation for an Israeli helicopter attack earlier today that killed a leader of the pro-Syrian Shiite Muslim Amal movement; the Israeli attack followed an earlier bombing, also today, in southern Lebanon by the militant Islamic group Hezbollah, which killed a pro-Israeli militiaman.

ITALY

Aug. 19—Assicurazioni Generali S.p.A., Italy's largest insurance company, agrees to pay \$100 million to Holocaust survivors and the heirs of victims for life insurance and annuity policies it failed to honor after World War II.

KOREA, NORTH

Aug. 31—North Korea test-fires a medium-range ballistic missile over Japan; the 2-stage missile, the Taepodong-1, can carry a conventional or nuclear warhead and has a range of between 900 and 1,200 miles.

MEXICO

Aug. 25—*The New York Times* reports that, according to Mexican officials, at least 90 Mexicans attempting to enter the US illegally have been found dead in the California desert so far this year.

Aug. 28—Rodolfo Debernardi resigns after 9 months as Mexico City's police chief; he will be succeeded by Alejandro Gertz Manero, a former prosecutor; the city's police force is plagued by corruption and has been unable to stem a recent wave of violent crime.

NIGERIA

Aug. 7—Nigeria's military government appoints a 14-member electoral commission to oversee preparations for elections and a return to civilian rule in May 1999; a retired judge, Ephraim Akpata, will head the commission.

Aug. 20—The country's military ruler, President Abdulsalam Abubakar, appoints a 31-member military and civilian cabinet.

Aug. 25—The electoral commission says that presidential elections will be held on February 27, 1999, and that national assembly elections will be held 1 week earlier.

PAKISTAN

Aug. 17—Former Prime Minister Benazir Bhutto, who was ousted in 1996 for corruption and misrule, appears in court in Lahore to face corruption charges.

Aug. 21—Pakistan lodges an official protest with the US over the US cruise missile attack yesterday on suspected terrorist camps in neighboring Afghanistan, saying the US neither sought nor received permission to send the missiles through Pakistani airspace.

Aug. 22—The government dismisses its intelligence chief, Chaudhry Manzoor, after he claimed that a US cruise missile landed in Pakistan and killed 6 people during the attack on Afghanistan; the government has since retracted the claim.

PALESTINIAN AUTHORITY

Aug. 6—Hanan Ashrawi and Abdul Jawah, ministers in the cabinet of President Yasir Arafat, resign to protest Arafat's failure to root out graft and mismanagement in the government; yesterday Arafat reshuffled his 18-member cabinet and added 10 new members, none of the members most widely viewed as corrupt were dismissed.

PANAMA

Aug. 30—In a nationwide referendum today, 64% of voters reject a constitutional amendment that would have allowed President Ernesto Pérez Balladares to run for a 2d 5-year term; presidential elections are to be held May 2, 1999.

PERU

Aug. 7—Prime Minister Javier Valle Riestra resigns, saying the government of President Alberto Fujimori has a "totalitarian spirit."

Aug. 21—Fujimori names Alberto Pandolfi prime minister; Pandolfi had held the post until Fujimori replaced him with Valle Riestra earlier this year.

RUSSIA

Aug. 6—Deputy Prime Minister for Energy Boris Nemtsov says the government will withhold payments to coal mining industries in areas where strikers are blocking railway lines; coal miners across the country have been striking since spring for payment of back wages.

Aug. 17—The government devalues the ruble and announces several other financial measures, including a 90-day deferment of payments on foreign debt (owed mainly by banks) and the restructuring of government bonds, on August 11 and 13, prices of Russian stocks and bonds hit historic lows; the devaluation is also linked to a letter from international financier George Soros, published recently in the *Financial Times*, that urged an international rescue of the ruble and government devaluation of the ruble.

Aug. 23—President Boris Yeltsin dismisses his cabinet without explanation and nominates Viktor Chernomyrdin as prime minister—a post from which he was ousted only 5 months ago.

Aug. 31—The Duma votes, 253 to 94, to reject Chernomyrdin; Yeltsin can dissolve the Duma and call parliamentary elections if his candidate is rejected 2 more times.

RWANDA

Aug. 3—*The New York Times* reports that Hutu rebels killed at least 110 people 3 days ago in attacks northwest of Kigali; the rebels are trying to topple the government, which came to power after the 1994 genocide in which more than 500,000 Tutsis and moderate Hutus were murdered.

Aug. 4—Government forces kill 60 Hutu rebels in the town of Rusebeya in northwestern Rwanda.

ST. KITTS AND NEVIS

Aug. 11—Officials announce that 62% of Nevisian voters backed secession from St. Kitts in a referendum yesterday, short of the 2/3 needed; secessionists have argued, among other things, that Nevis does not receive its fair share of federal funds.

SOUTH AFRICA

Aug. 21—Former President P. W. Botha is found guilty of contempt for repeatedly refusing to testify before the Truth and Reconciliation Commission about his role in apartheid-era atrocities committed under his rule from 1979 to 1988; Botha is sentenced to pay a \$1,600 fine or spend a year in jail; he is released on bail pending an appeal but is also sentenced to another year in jail, suspended for 5 years, if he again ignores the commission's subpoenas; during Botha's term in office more than 30,000 people were detained without trial and thousands were tortured or killed by the police.

Aug. 25—In Cape Town, a bomb kills at least 1 person and injures 24 others at an American-theme restaurant; a group calling itself Muslims Against Global Oppression says it carried out the attack in retaliation for US missile strikes on suspected terrorist facilities in Afghanistan and Sudan on August 20.

SUDAN

Aug. 7—The government and southern rebels call a halt to peace talks aimed at ending Sudan's 15-year-old civil war; a cease-fire allowing UN relief aid to reach millions in drought-ridden southern Sudan continues; the talks broke down because the mainly Arab government and the mainly African Sudan People's Liberation Army could not agree on which areas might be included in an independent "South Sudan"; talks are to be held again in 6 months.

SWITZERLAND

Aug. 12—In New York, representatives of 2 Swiss commercial banks and Holocaust survivors announce a settlement in which the banks will pay \$1.25 billion to survivors; the accord is meant to settle claims on World War II-era assets deposited in Swiss banks by Jewish families or looted by Nazi Germany and then deposited.

UNITED KINGDOM

Northern Ireland

Aug. 1—A car bomb explodes in the town of Banbridge, 25 miles southwest of Belfast, wounding as many as 7 people; there is no immediate claim of responsibility for the blast.

Aug. 15—A car bomb explodes in a crowded shopping district in the town of Omagh, 55 miles west of Belfast, killing at least 20 people and wounding more than 100.

Aug. 16—The toll in yesterday's bombing rises to 28 dead and more than 200 wounded, making it the deadliest paramilitary attack in Northern Ireland's 29-year conflict.

Aug. 17—The New York Times reports that the Loyalist Volunteer Force, a hard-line Protestant guerrilla group, announced earlier this month that it was ceasing military operations.

Aug. 18—A Catholic republican splinter group calling itself the Real IRA (to distinguish itself from the Irish Republican Army, which is observing a cease-fire) claims responsibility for the Omagh bombing but says it did not intend to kill anyone; the group later announces a cease-fire.

Aug. 22—The Irish National Liberation Army, a hard-line republican guerrilla group, calls a cease-fire and apologizes for the killing and wounding of innocents during its campaign.

UNITED STATES

Aug. 25—José Antonio Llama, a board member of the anti-Castro Cuban-American National Foundation, is indicted along with 6 other men on charges of conspiracy to assassinate Cuban President Fidel Castro during his visit to Venezuela last year.

Aug. 31—The government closes its embassies in Togo and Ghana, citing security threats; security has been tightened at a

number of US embassies following the August 7 bombings of the US embassies in Nairobi, Kenya, and Dar es Salaam, Tanzania.

YUGOSLAVIA

Serbia

Aug. 3—The US, the EU, and NATO demand a cease-fire in the Serbian province of Kosovo, where a Yugoslav government offensive against the separatist ethnic Albanian rebel Kosovo Liberation Army (UCK) has made refugees of an estimated 70,000 or more civilians in the past 10 days; US officials say NATO has approved contingency plans for military action against Serbian positions in Kosovo.

Aug. 8—A UN official says that the few doctors who have been able to reach refugees in Kosovo have estimated that 50% of the children are suffering dehydration and the early effects of malnutrition; there are now an estimated 250,000 internal refugees in Kosovo, more than 10% of the population.

Aug. 13—Ethnic Albanian political leader Ibrahim Rugova names a team to negotiate with Yugoslav President Slobodan Milosevic; the team does not include representatives of the guerrilla UCK, whose leaders have denounced Rugova as a collaborator.

Aug. 24—Serbian police in Kosovo kill 3 aid workers bringing food and medical supplies to ethnic Albanian refugees; the 3 workers, local representatives of the international Mother Teresa aid organization, were killed by cannon fire from an armored personnel carrier.

Aug. 27—Serbian police block a UN convoy carrying food and supplies for refugees west of Pristina, Kosovo's capital.

Aug. 29—The Serbian Interior Ministry says a mass grave containing the bodies of 22 Serb civilians killed by UCK rebels last month was found 2 days ago south of Pristina.

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PERSPECTIVES

A Whiggish interpretation of history is alive and well when it comes to explaining events in the former Soviet Union. Financial Times journalist Anatol Lieven exposes the assumptions that often underlie Western reporting on the post-Soviet nations.

FOLLOW THE YELLOW BRICK ROAD

Anatol Lieven

MUCH OF THE WESTERN and especially the American press tends to take a "monolinear" approach to the "transition" of Russia and the other former Communist states, according to which they are all on one "path" to "democracy and the free market." They may proceed at different speeds, stop, or even go backward, but the assumption is that the ultimate goal is one and indivisible, and that you can take only one monorail route to get there.

The most sophisticated contemporary version of this is, of course, Francis Fukuyama's "end of history" thesis. In the American media, a shallow, bland version of Fukuyama's thought is so omnipresent that it is rarely noticed, let alone analyzed or criticized. A classic, and typical, example appeared in a 1996 *Washington Post* article. The subject was the Armenians, but exactly the same formula has been used to describe all the former Communist countries that have undergone "reform." The correspondent wrote that "after Soviet rule and war with Azerbaijan, [Armenians] are getting back on the path of free markets and democracy, albeit with growing pains."

Leaving aside the truly horrible mixed metaphor—after all, what do you do if you suffer growing pains while on a path? Retire behind a tree?—this sentence in its short life succeeds in promiscuously coupling with no fewer than four ideological assumptions, all of doubtful character.

The first is the religious imagery

bound up with the metaphor of a "path," evocative of spiritual quests, pilgrimages, and the pursuit of various species of Grail. Except for rare revolutionary moments, the use of religious metaphors for political processes is usually a mistake. Everywhere and most of the time, the principal business of politics is politics: it is the process by which people try to acquire and keep power, the wealth that comes from power, or the power to protect wealth. We all know this instinctively when we look at our own politicians; but too often, when reporting on other countries, we assume that their political processes are somehow much more driven by ideological quests.

Second, reinforcing the religious metaphor, with its implications of the nobility of the aim, is the organic metaphor of "growing pains," which implies an inevitable and scientifically determined process by which a life, unless artificially cut short, develops according to certain fixed rules toward an inevitable end. States and nations, while they may develop in some sense organically, do not do so after the fashion of individual organisms. Rather, they are like complex ecosystems in which if one element changes, it unpredictably influences the rest until in the end the whole system has been transformed.

Third, there is the assumption that before this organic process was interrupted by Soviet rule, Armenia and other nations in the region were proceeding along this path to "democracy and the free market." This was true of Estonia and Latvia, and possibly of Georgia; but in the case of Armenia and other areas, their history before the Soviet annexation, and the ideology of their leading nationalist parties, allows no such confidence.

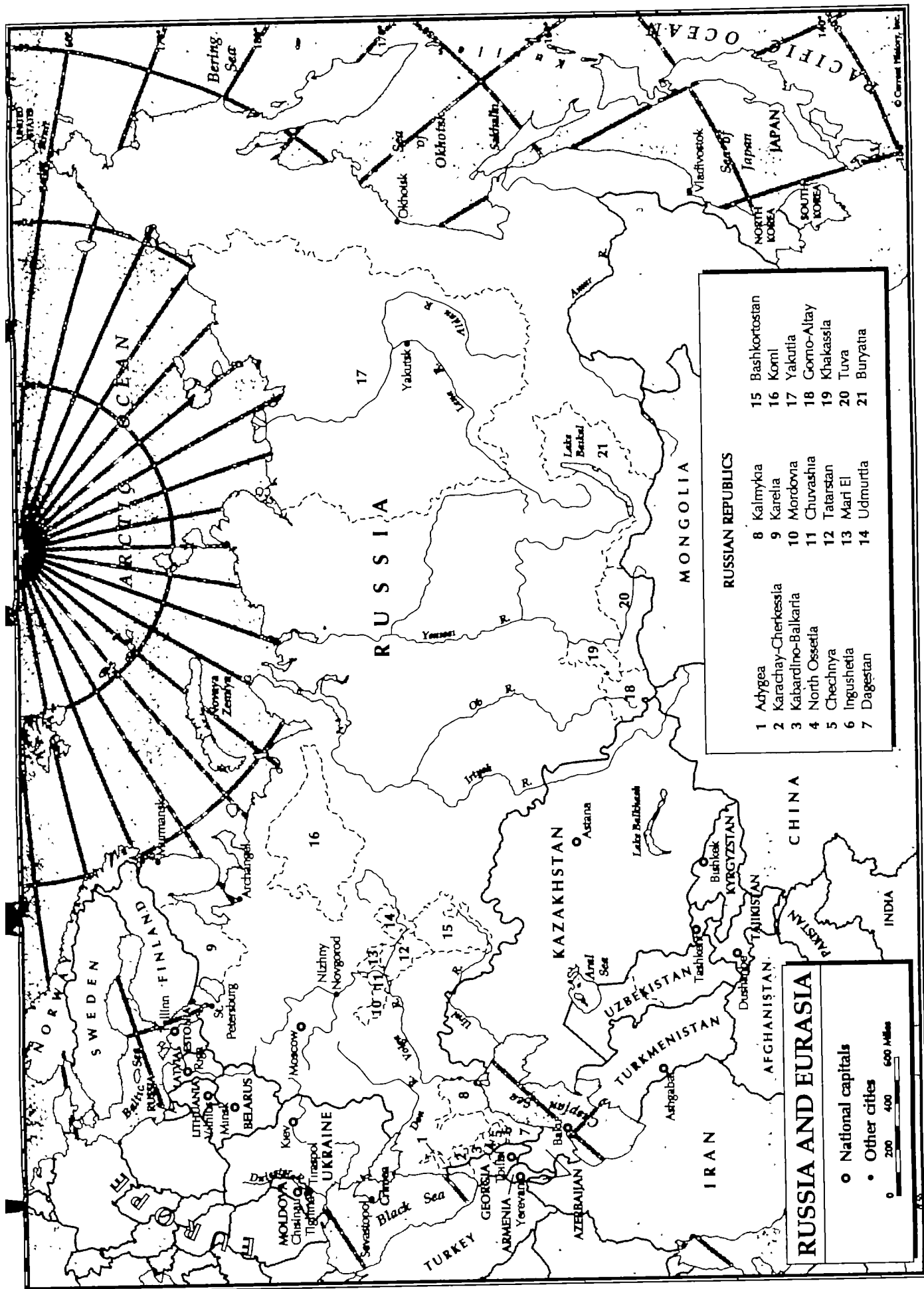
Finally, there is the monolithic attitude that colors the entire pas-

sage. It speaks of the path to democracy (evidently viewed as taking a single form, already fixed and fully understood) and the free market. But the way capitalist economies work and are influenced by states differs immensely from country to country; the paths by which countries have developed capitalism are highly varied, and for every truly "free" electoral system there is another that is rigged, bought, managed, or shaped according to local patterns and traditions. It is also true of course that for every fully successful capitalist state there are two or three where for many decades progress has proved halting and ambiguous, especially as far as the mass of the population is concerned. There is nothing "abnormal" in the world today about the states of Egypt, Mexico, and Pakistan. (Ironically, as the *Post* article on Armenia appeared, the Armenian government was itself following a "normal" pattern by preparing to rig an election and crack down on the opposition.)

Analysis based on the monolinear view of development is mistaken with regard to most countries in the world. When applied to Russia, it can become actively dangerous, because it can so easily tie in with prejudices about the "perennial" Russian character. If there is only one path forward, then this logically means that there is only one path back: either the development of a pro-Western, free-market democracy, or a reversion to "dictatorship and aggressive external policies."

And when the Western belief in a single road to democracy becomes mixed up with the ideological belief that "democracies do not go to war with each other," whereas dictatorships are naturally prone to aggression, then the layers of mystification become almost impenetrable. ■

ANATOL LIEVEN covered the former Soviet Union for the London Times from 1990 to 1996. This essay is excerpted with permission from his book, Chechnya: Tombstone of Russian Power (New Haven, Conn.: Yale University Press, 1998)



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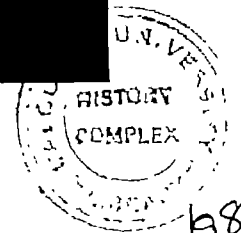
Spinning Success?

Disorganized Capitalism in India's Textile Industry

Garrett Menning

Plus:

Managing the Global Managers; a World Bank Perspective on East Asia



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"To the extent that international supervision of the financial system exists, it has often sent perverse signals to bankers and investors, and probably governments as well, about the existence of lender of last resort facilities. As a result, the international financial system is a reckless place in which accidents inevitably happen. If that is the general diagnosis, what is the cure?"

Global Rules for Global Finance

ETHAN B. KAPSTEIN

With the collapse of the Soviet Union in 1991, scholars and public officials in the West began to crow about the triumph of global capitalism. Trade and capital flows were increasing at a faster rate than world product, stock markets were booming, and investors were scurrying to place their funds in the so-called emerging markets. Around the world, countries were liberalizing, privatizing, and deregulating at the urging of public and private international financial institutions.

These developments have, however, been accompanied by a series of financial crises. Beginning with the exchange rate shocks that rocked Western Europe in 1992 and 1993, the world has experienced banking and currency crises in Mexico in 1994–1995, East Asia in 1997–1998, and Russia and Latin America in August 1998. By the early fall of 1998, stock markets around the world had tumbled to levels not seen in a year, and the emerging markets in particular were suffering from the sudden flight of speculative capital, with investors writing off billions of dollars in losses. At the same time, the long-standing banking crisis in Japan remained far from a solution, with the government engaged in halfhearted measures that were doing little to reignite the country's economy. Far from being the decade of global capitalism, the 1990s may well be remembered as the decade of financial instability.

Like earlier periods of sustained financial crisis—such as the Great Depression and the Latin American debt crisis of the 1980s—the current malaise

has prompted policymakers and analysts to draw lessons that could provide the basis for future efforts at systemic and national reform. A wide array of policy options has been placed on the table, ranging from abolition of the International Monetary Fund (IMF) to the renewal of capital controls. This suggests that the debate over international financial policy will become increasingly politicized in the years ahead, and will no longer remain the exclusive province of the "experts." Indeed, one of the most enduring outcomes of the current global debacle may be the long-term if not permanent discrediting of the experts, whether they are based at banks, universities, or international organizations.

For the international system as a whole, the best we can expect for the foreseeable future is a muddle-through strategy based on existing cooperative frameworks. The key issue here, at least for the near and medium term, is whether the United States and its major Western allies can muster the domestic political support needed to provide liquidity to the international system through such measures as refilling the depleted coffers of the IMF and agreeing to a round of interest rate cuts. Unlike the debt crisis of the 1980s, when the Reagan administration was able to convince Congress to increase the American quota at the IMF, thus extracting the domestic support required for international leadership, the Clinton administration is mired in scandal and increasingly unable to find political allies.

This issue of Western leadership of the global economy—perhaps stewardship would be a better term—becomes especially sensitive as the European Union prepares to launch its single currency, vesting ever-greater authority in the Frankfurt-based European Central Bank (ECB). To be sure, with the creation of the euro the old continent will have plenty of reserves available for liquidity purposes.

ETHAN B. KAPSTEIN is Stassen Professor of International Peace at the University of Minnesota. A former international banker and official at the Organization for Economic Cooperation and Development, he is the author of *Governing the Global Economy: International Finance and the State* (Cambridge: Harvard University Press, 1996).

At the same time, the ECB's dominant concern with maintaining price stability and establishing the international reputation of the new currency as a store of value may tie its policy hands. How this entity will respond to global financial crises remains uncertain, but the world will surely be looking to Europe to send some signals quickly.

THE PROBLEM

The international financial system, like all financial markets, exists to connect borrowers with savers. Because it involves transactions across different countries and currencies, linking a financial institution in country A with a borrower in country B, it raises special problems that do not occur in domestic financial markets. Because information about the economic policies of foreign governments, the business practices of foreign companies, and exchange rate movements is generally more difficult for financial intermediaries to obtain, international transactions may not necessarily be assigned the appropriate degree of risk. This failure of financial intermediaries to account fully for the risks associated with conducting overseas transactions must be considered among the major issues facing those who seek to stabilize the global economy.

Ironically, that failure has been heightened by the profound misunderstanding that seems to characterize relations between financial authorities (national and international) and private sector economic agents. The misunderstanding concerns the role the authorities may be expected to play during periods of economic crisis. Witnessing the swift response of the United States Treasury to Mexico's financial crisis in December 1994, when billions of dollars flowed across the Rio Grande in an effort to stabilize the peso, financial agents apparently concluded that they would be bailed out by Washington or the IMF in the event of a national financial collapse in an important country.

This belief undoubtedly provided these agents with some comfort in dealing with corrupt and opaque regimes such as in Russia, a country that has amassed \$120 billion in external debt and another \$40 billion in domestic debt (a significant percentage of which is held by foreigners). Now, having suffered the default of Russian debt in the late summer of 1998, and with no bailout forthcoming, investors may finally have learned a hard lesson. Still, it is a lesson that has cost the world economy billions of dollars. Finding less costly ways of dealing with this "moral hazard" problem

is at the core of many contemporary reform programs.

RISKY BUSINESS

Banking is a risky business in even the most stable economic environment. But in nearly every country the challenge of running an international bank has grown increasingly complex since the abandonment of the Bretton Woods system of fixed exchange rates in 1971. Exchange rates now fluctuate widely, creating the potential for huge losses by speculators who bet incorrectly on the direction of change. At the same time, the liberalization of capital flows has made it easier than ever for investors to find new ways of placing—and losing—their cash. And while banks have developed an array of instruments aimed at limiting an agent's downside risk—derivatives, options, forward contracts, and the like—they have proved to be weak reeds.

Given the ease and imagination with which banks manage to lose their depositors' money, these entities face a generally similar set of regulations, even if their application varies widely. Basically, banks are regulated to protect both depositors and the process of money creation. When banks fail, citizens are threatened with the loss of their savings, while the effects of a contraction in the money supply may reverberate throughout the entire economy. Accordingly, a set of regulations exists that includes prudential measures to maintain bank solvency; prudential measures to protect bank liquidity; official assurances such as deposit insurance to prevent panic runs on banks; mechanisms for resolving the problems of failing banks; and lender of last resort facilities to permit solvent institutions to keep functioning. These regulations also carry with them the moral hazard problem, for if bank managers are convinced that public authorities will not permit them to fail, they may take significant risks with depositors' funds.

Regulatory problems and solutions are compounded in the context of an international system with close to 200 nation-states and nearly as many different financial regimes. The fundamental issue is that while banks cross borders, regulators do not. Strengthening the international bank supervisory regime has been an important agenda item for central bankers for a generation now, and the Basel Committee of Bank Supervisors, based at the Bank for International Settlements (the central bank of central banks) in Basel, Switzerland, is the most prominent organization to perform that role. But as

important as that group has become, its recommendations are still informal and must be set into national law by domestic regulators.

ON A COLLISION COURSE

It is at the intersection of the international monetary system, national economic policymaking, and financial intermediation that the global pileup of bad loans has occurred. And sprawled at this intersection are the institutions known as banks. Financial crises usually involve banking crises at some stage, and most banking crises begin with incorrect managerial analysis of credit, currency, and country risk. Further, in many countries these are failures of commission rather than omission, dosed as they are with a good measure of corruption involving government officials, for whom banks exist mainly to facilitate embezzlement of public funds and capital flight.

In sum, the international financial system is dominated by money-center and investment banks that have failed to master the assessment of risk in a world economy characterized by floating exchange rates, differing political economies, and a diversity of business practices. And to the extent that international supervision of the financial system exists, it has often sent perverse signals to bankers and investors, and probably governments as well, about the existence of lender of last resort facilities. As a result, the international financial system is a reckless place in which accidents inevitably happen. If that is the general diagnosis, what is the cure?

IN SEARCH OF STABILITY

At bottom, almost every proposal for financial reform represents a search for stability. In confronting the recent rash of crises, public officials and mainstream economists have generally advanced an agenda that includes the following three proposals: first, the publication of better economic and financial information; second, the development of sound, sustainable national economic policies and financial regulations; and third, international financial and regulatory reform. Let us treat each of these in turn before examining

some of the more radical solutions now being touted.

In a recent speech, United States Treasury Secretary Robert Rubin made the case for "better information." He claimed that "when investors are well informed, use that information wisely, and expect to bear the consequences of their actions, they will make better decisions." He then asserted that in the case of East Asia there were "obstacles to getting good information about economic and financial matters"—obstacles that stood in the way of banks, governments, and international institutions alike. Rubin went on to encourage governments, financial firms, and the IMF to substantially expand "the types of economic and financial data made available."

It is hard to argue against a public call for better information. Still, Rubin's claims lack credibility. Few investors have blamed their analytical failures on a lack of data. It is all the more disingenuous coming from an American official who has the massive resources of the government at his disposal. Does Rubin, or anyone else in the financial community, really believe that additional data could be effectively processed?

The problem is not simply a lack of numbers but the quality of our understanding about financial risk. Good country risk assessment, for example, requires more than data about the balance of payments, monetary policy, or the banking system. It requires a deep knowledge of domestic politics.¹

Consider Albania, which had great numbers in the mid-1990s. What the data did not reveal was the involvement of organized crime in arms sales to Serbia and Montenegro in breach of a United Nations embargo. Financial pyramid schemes were built to siphon off the country's savings into these illicit activities; the ending could only be (and was) an unhappy one.

A second and much more prominent example comes from Asia. Until the financial crisis of 1997, most countries in the region seemed to enjoy sustained export-led growth coupled with sound macroeconomic management. But what did these numbers tell us about "crony capitalism," that familial and old boy network that lay at the center of most of these economies? Cronyism should have provided the starting point for our analysis.

And even Russia, for all its economic problems, did not have such bad numbers coming into 1998.

Far from being the decade of global capitalism, the 1990s may well be remembered as the decade of financial instability.

¹These comments are drawn from Ethan Kapstein and Thierry Malleret, "Barking Up the Wrong Tree," *International Herald Tribune*, May 30, 1998.

Its current account balance was certainly weakening with the fall in oil prices, but its external debt burden as a percentage of exports was low compared to other emerging economies, and its central bank had effectively throttled inflation. Again, the numbers told us nothing about the corruption and criminality that had remained untouched by a decade of economic reform.

These lessons suggest that better economic and financial information will do nothing to help stabilize the world economy if it is not coupled to a deeper understanding of domestic political economics. And that information certainly exists within the universities, foreign ministries, and intelligence agencies of the leading industrial nations. This is the information that needs better dissemination, and the best message we could possibly send to economies everywhere is simply that we are watching you and are prepared to publicize your misdeeds. Only in that way can we hope to eliminate the political rot that lies at the core of so many financial crises.

The second policy recommendation concerns the adoption of sound and sustainable macroeconomic policies along with strong systems of financial regulation. Again, to cite Secretary Rubin, "a common element amongst all the countries involved in the crisis in Asia—and, for that matter, in virtually all countries experiencing financial crises—is a badly flawed domestic financial sector." As was mentioned, weakness in the banking system may derive from external forces, especially the perverse incentives sent to financial intermediaries by poor government policymaking, and from forces that are internal to the banks themselves, namely poor risk assessment. Macroeconomic management and financial regulation thus go hand in hand.

Unfortunately, this has not been the case in most emerging markets. The failure to maintain credible monetary, fiscal, and international economic policies has brought countries into a vicious circle with global currency traders. Honing in on such weaknesses as large current account deficits, an inability to collect taxes, or failure to control the money supply, speculators bet against currencies, often leading to devaluations, problems in the exposed banking sector, further economic instability as citizens panic, and, in the Russian case, a default on the outstanding debt.

How would better financial regulation lessen the probability or at least the effects of a crisis? The answer is found in the key role banks play in the process of financial intermediation, especially in

emerging markets where alternative sources of finance are generally less developed. A shock to the banking system in these countries is likely to have especially severe effects on the real economy, since few other sources of credit exist. For this reason, creating a solid, well-regulated banking system is now viewed as an integral part of a successful development strategy.

But few developing countries have the internal institutional resources needed to develop independent regulatory authorities; even in the industrial countries, a long tradition in economic research argues that regulators are inevitably captured by the industries they supervise. This points to a larger and more general problem with respect to the relationship between states and markets. To the extent that markets need strong governments that can enact and enforce the rule of law, economic liberalization must be accompanied by a process of state building. In the absence of state institutions that create a level playing field for market participants, it is difficult to see how either government or market can become legitimate in the eyes of citizens and consumers. Here the international system has a role to play, and any discussion of national economic and financial policy reform necessarily relates to the third topic on the reform agenda, global financial supervision.

THE IMF AND ITS DISCONTENTS

Many proposals now being aired with respect to the international financial system focus on the role of the IMF. These proposals range from abolishing the fund to breaking it up into several regional institutions. The mainstream view tends toward rejection of these alternatives, and instead focuses on IMF reform. This means making the institution more transparent and accountable, suggestions that have already been made in years past. The IMF's more immediate problem, however, is that it is dying on the vine, running out of funds and without the domestic political support—especially in the United States Congress—needed to refill its coffers.

The IMF has long been a target (or scapegoat) for those seeking international financial reform, but since the Asian crisis erupted a growing chorus of voices has found fault with its policies and management. Led by the unlikely team of former Secretary of State George Shultz, former Treasury Secretary William Simon, and former Citicorp chairman Walter Wriston, the IMF's critics call the organization "ineffective, unnecessary, and obsolete." They claim

that "it is the IMF's promise of massive intervention that has spurred a global meltdown of financial markets."² Naturally, they call for its closure.

The three argue that "the promise of an IMF bailout insulates financiers and politicians from the consequences of bad economic and financial practices, and encourages investments that would not otherwise have been made." This, in essence, is the moral hazard problem stated earlier. But such an analysis raises the question: If we do not need an IMF for the international system, why do we need lenders of last resort domestically?

The answer is that we need both, for reasons that have to do with externality effects. In economic terminology, we may say that the social costs of a banking collapse are greater than the private costs. Since people and industries that are not customers of bank A will suffer when it fails, some entity, usually a central bank, must act to contain the financial damage.

In the international system, the analogous problem is known as contagion. When a financial crisis arises in country A, investors and creditors in country B may fear that it will spread. This may lead them to exit country B, sell its currency, equities, and bonds, and take other actions that result in a self-fulfilling prophecy. Because investors and creditors usually act in herds—no one wants to be taken for the "sucker"—country B may feel the full wrath of the marketplace even if it has done nothing to bring about this turn of events. Again, the social costs of an economic crisis in country A—that is, the costs that spread to "innocent" country B—are greater than the private costs, or those borne by "irresponsible" country A alone. To the extent that a lender of last resort can contain the financial damage caused by the crisis in A, it should do so for the good of the entire international system.

The problem is one of balancing lender of last resort obligations against moral hazard effects. Mainstream reformers are urging that the IMF's conditional lending programs be made into more of a burden-sharing exercise in which private sector lenders also "feel the pain." This has certainly been the case with Russia, where creditors and investors have suffered

large losses. But the flip side is that the IMF seems to lack the clout to keep crises from spreading, and the innocents have indeed been hurt. Should the IMF fade into irrelevance, new institutions to stabilize the world economy will be needed.

THE RULES OF THE GAME

Policy attention has also focused on the role of the main international regulatory bodies for global finance, the Basel Committee of Bank Supervisors and the International Organization of Securities Commissions (IOSCO). The Basel Committee, which formulated the December 1987 Basel capital adequacy accord that strengthened the capital requirements of international banks, is now being urged to examine the international lending practices of banks and to draw up additional prudential guidelines with respect to their foreign currency and foreign loan exposures. The committee is also playing a larger role in providing technical advice to regulators in emerging markets, ensuring that they possess the tools needed for supervising domestic financial institutions. The IOSCO is working along a parallel track when it comes to stock exchanges around the world, and it is also trying to develop new prudential rules for global investment firms.

These efforts at reform provide useful starting points, but they may well prove too timid should the current global financial crisis deepen and spread. This possibility has opened the door to more radical policy ideas that range from a return to capital controls to the imposition of quantitative limits on cross-border lending by banks. There is also renewed attention being paid to the idea, first articulated by Nobel Prize winner James Tobin, of placing a tax (the "Tobin tax") on all short-term international financial transactions in the hope of limiting speculation in favor of long-term investment. A possible model here is provided by Chile, which imposes a heavy tax on investors who withdraw their funds from the country after less than 12 months.

Perhaps a better approach, however, is to return to the basic governing principles of the global economy, and ensure that these are respected by all parties. The major industrial countries must state clearly the rules of the game and penalize those who do not follow them.³ Countries that cannot abide by the current set of rules should receive the technical assistance they need to become full par-

The problem is one of balancing [the IMF's] lender of last resort obligations against moral hazard effects.

²George Shultz, William Simon, and Walter Wriston, "Who Needs the IMF?" *Wall Street Journal*, February 3, 1998.

³The following draws from Ethan B. Kapstein, "Back to Basics," *Los Angeles Times*, September 6, 1998.

ticipants, or they should stay out of the game. These rules should include the following:

- Banks in the industrial countries will not be permitted to conduct any financial activity with banks in emerging markets that do not adopt the regulatory standards provided by the Basel Committee of Bank Supervisors. Further, they will not make any loans to companies that do not adopt international accounting standards.

- Investors in the industrial countries will be permitted to invest their funds only in stock exchanges that are supervised by regulatory bodies that are members of the IOSCO. They will not invest in companies that have not adopted international accounting standards.

- Following the IMF charter, no country will obtain an IMF loan that has unilaterally devalued its currency and defaulted on its external debt obligations without prior IMF consultation and agreement.

Other points could be added, but the aim of this approach is hopefully clear: to establish that the

world economy has rules, and that all players must abide by them in the interests of global stability and fairness. This approach actually does the governments of emerging markets a favor, for it allows them to turn to private sector actors—many of whom are cronies—with a simple choice: either join the global system, or opt out. By opting in, they agree to take these steps, and in the process “normalize” their political economy. By opting out, they remain isolated, with the freedom to do as they wish, but at the likely price of extreme poverty. The alternatives are clear, and the choice is theirs to make.

This approach could be perceived by some as insensitive to local cultures and their economic practices. It is, and that is now required in the interest of system stability. The world economy needs rules and institutions that must be made clear to all market participants. And at no time does the need for guideposts become more compelling than during periods of financial crisis. ■

"Until Asian governments adopt expansionary policies, take control of short-term capital movements, and cooperate regionally, the crisis is likely to drag on and on, like water torture, bringing poverty and insecurity to hundreds of millions of people and turning parts of Asia into a dependency of the IMF and its number one shareholder. Recent policy changes suggest that this lesson is slowly being learned."

The Asian Crisis and the Global Economy: Causes, Consequences, and Cure

ROBERT WADE

Explanations are about the only thing not in short supply in the Asian slump. For all their diversity, they can be collapsed into two meta interpretations that reflect deeper differences in beliefs about rationality and markets.

Those whose worldview emphasizes rationality, self-adjusting markets, and market failure as exceptional tend to see the crisis as the result of rational calculations in a situation of market-distorting government interventions and institutional weaknesses in Asian economies. Those whose worldview stresses nonrationality (or a different kind of rationality than that assumed by neoclassical theory), and who also stress routine failure of well-working markets and the need for government interventions to modify market outcomes, tend to see it as the result of nonrational calculations in underregulated financial markets, both national and international.

Thus the debate about the causes has been less a debate than a case of paradigms talking past each other. Some hard testing is needed. The problem is that even in one country several different explanations may contain truth and even reinforce each other. But even allowing for country and time differences, "There are not 18 good reasons for anything," as economist George Stigler once said. What

follows aims, modestly, not at the necessary hypothesis formulation and testing but at an interpretive account. It gives prominence to the nonrational elements as an offset to the tendency of economists to be much more accepting of stories based on the assumption of rational calculation simply because that is more congruent with neoclassical theory. And unlike other accounts, it encompasses both the slump and the prolonged prior success.

HOW BAD IS IT?

Since July 1997, exchange rates and stock prices in East and Southeast Asia have plunged. South Korea, Thailand, and Indonesia have had the largest drops in exchange rates, ranging from 36 percent to 72 percent by the end of March 1998. However, Malaysia and the Philippines, generally regarded as having escaped lightly, have had exchange rate declines of not much less than Thailand and South Korea. Adding the fall in the stock market to the fall in the exchange rate to get a broader measure of impact, we have to put Malaysia with the group of worst affected countries, with the Philippines just behind. In short, the conventional understanding that only South Korea, Thailand, and Indonesia have been badly affected is not true by these measures. Malaysia and the Philippines have been hurt almost as much. Even Japan, Hong Kong, and Singapore have taken substantial hits. Taiwan and China look to be least affected.

The slump is still not in the clearing-after-the-storm stage. After a respite in early 1998, a second great wave of capital outflow occurred in May and June, and forecasters resumed chasing the economies downhill. It is not an exaggeration to

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liken the crisis in Asia to the Great Depression of the 1930s in terms of the scale of the falls in output and consumption and the increase in poverty and insecurity. Countries have been pushed back down the hierarchy of world income to where they were 10 years ago and more in terms of per capita income measured at current exchange rates. Meanwhile the international lenders have escaped with small losses, disproving once again the adage, "If you owe the bank \$1 million you have a problem, if you owe the bank \$1 billion the bank has a problem."

Most commentators agree that the sharp pullout of funds by investors across the region triggered the slump, and that the pullout was panicky. The whip-saw movement from capital inflows to capital outflows occurred on a scale that could not but tear apart the social fabric of countries subjected to it, especially where political structures were only weakly institutionalized. Net private flows to or from the five most affected Asian economies—Thailand, South Korea, Malaysia, Indonesia, and the Philippines—were plus \$93 billion in 1996; they were negative \$12 billion in 1997. The swing in one year of \$105 billion (with most of the outflow concentrated in the last quarter of 1997) equals 11 percent of the combined GDP of the five countries. Asia's experience was worse even than Latin America's in the 1980s. The swing between 1981 inflows and 1982 outflows in the three largest debtors (Brazil, Mexico, and Argentina) amounted to 8 percent of their combined GDP.

Any interpretive account of the crisis must explain why the inflows and the outflows were so large, and why the contraction of economic activity has continued to be so sharp. It also has to link the banking crisis, the currency crisis, and the corporate crisis, and it must link the politics with the economics, all without becoming so luxuriant as to be obscure.

THE BANK-BASED, HIGH-DEBT MODEL

Thanks to relatively equal income distribution, the large majority of Asian households are net savers. They deposit much of their savings in banks. Banks have to lend. In Asia this lending has been largely to firms seeking to borrow in order to invest, and not to households and governments.

Large Asian firms have tended to finance a large proportion of their investment from bank borrowing, and to carry a large amount of debt relative to equity compared to Western or Latin American firms. High debt-to-equity ratios allowed them to

invest much more than through retained earnings or equity finance alone, and high corporate investment helped to propel the region's fast economic development over several decades.

Corporate sectors with high levels of debt are vulnerable to shocks that cause a fall in cash flow or an increase in fixed payment obligations, especially systemic shocks such as a fall in aggregate demand, a rise in interest rates, or devaluation of the currency (when part of the debt is foreign).

This bank-based system of financial intermediation encourages close relations between bankers and corporate managers, and is sometimes called "relationship banking." The system often includes government incentives to direct lending to particular sectors or functions. And it includes a closed or partially closed capital account, which means that financial capital cannot move freely in and out of the country. The entire apparatus buffers highly leveraged corporate sectors from systemic shocks and from the prudential limits of Western banks, allowing businesses to sustain levels of investment well above what the risk preferences of equity holders would allow. Very high domestic savings permit most of the investment to be financed domestically.

FINANCIAL LIBERALIZATION

Asian governments, encouraged by the IMF and the World Bank as well as by national business elites, liberalized their financial systems through the 1990s, including the external capital account. Liberalization permitted domestic agents to raise finance on foreign markets and gave foreign agents access to the domestic financial market. Hence locals could open foreign bank accounts; banks could extend credit in foreign currencies in the domestic markets; nonbank financial institutions and private corporations could borrow abroad; foreigners could own shares listed by national companies on domestic stock markets; foreign banks could enjoy wider freedom of entry into the domestic banking sector; and offshore banks could borrow abroad and lend domestically. All this took place in the context of a more or less fixed exchange rate regime tied to the United States dollar.

With liberalization governments gave up their capacity to coordinate foreign private borrowing. The IMF, the World Bank, and the Organization for Economic Cooperation and Development (OECD) acknowledged the need for the concomitant strengthening of bank regulation and supervision, but did not constrain their push for liberalization,

which outpaced regulatory strengthening on the ground.

Liberalizing the financial sector and opening the capital account is dangerous when banks have little experience in international financial markets and when nonbanks also borrow abroad. It is doubly dangerous in the context of a bank-based financial system and a high debt-to-equity corporate sector. It is triply dangerous when the exchange rate is pegged. And when the banks and nonbanks are essentially unsupervised, a banking-cum-currency crisis is just waiting to happen. In Asia, swift external financial liberalization with unsupervised banks and fixed exchange rates undermined the previous system of industrial and banking cooperation and exposed fragile debt structures to unbuffered shocks.

THE FLOWS INWARD

The capital inflow side of the story starts with the extraordinary growth in recent years of international capital flows, which now amount to more than 70 times the volume of world trade. The flows are mostly short term; 80 percent of net global foreign exchange transactions have a maturity date of seven days or less. The growth of these flows reflects, in part, the efforts of central banks in Europe and Japan to stimulate their economies by means of loose monetary policy.

The growth also reflects the imbalance between savings and investment in Japan. For many years the Japanese, the fastest aging population in the world, have been saving hard for the approaching years of long retirement. The economy is mature, among the richest in the world, and not able to utilize productively enough investment to absorb the savings. The result is an excess of domestic savings over domestic investment that manifests itself in chronic current account surpluses matched by capital exports.

In the decade from 1985 to 1995, the yen appreciated enormously against the dollar, from about 238 to 80. East and Southeast Asian currencies, linked to the dollar, depreciated against the yen. At the depreciated exchange rates, East and Southeast Asia provided much more competitive production sites. Japanese capital flooded out to the rest of Asia, much of it for export-oriented production aimed at the United States. Capital from other core economies joined in. With such high rates of invest-

ment, largely for the production of tradeable goods, the economies grew at phenomenal speeds. Thailand itself had perhaps the highest growth rate in the world between 1985 and 1994.

Japan's imbalance between savings and investment also grew after the early 1990s because of the bursting of the property, stock market, and currency bubbles. Japanese banks found themselves with many bad loans. Banks near insolvency tend to take big risks unless they are recapitalized, merged, or forced into bankruptcy. Rather than force the banks to follow one or another of these solutions, the Japanese government decided to allow them to write off the bad loans gradually (to "trade through"), giving them extra profits by a variety of subsidies. Meanwhile, the voracious Japanese appetite for savings continued, the savings going mostly into the banks. The banks had to lend.

After the early 1990s, Japanese banks aggressively sought high returns from foreign lending, much of it in risky loans to Southeast Asia. They found themselves able to borrow both domestically and abroad at low rates. They lent short-term to Southeast Asian banks and firms at appreciably higher rates, confident that Southeast Asian currencies would remain pegged to the dollar. European banks also lent heavily, especially after the flight from Mexico in the wake of the Mexican financial crisis of 1994–1995.

On the demand side, banks and firms in South Korea and Southeast Asia rushed to borrow abroad. Borrowing abroad at roughly half the cost of borrowing domestically seemed to be a one-way bet: you could only win. The proviso was that the currency tie to the dollar be maintained, precluding exchange rate risk. (The higher credit-rated banks and enterprises of South Korea not only borrowed abroad and lent domestically, they also then lent to Southeast Asia.)

At the same time, capital flowed in to accommodate the excess of investment over savings. High-speed growth generated gross domestic investment demand even higher than gross domestic saving, itself about the highest in the world.

In short, the inflows were driven both by the need to accommodate the excess of investment over savings (manifested in current account deficits), and by the opportunity, thanks to capital account opening, for foreign creditors to get higher returns and domestic borrowers to borrow more cheaply.

When the banks and nonbanks are essentially unsupervised, a banking-cum-currency crisis is just waiting to happen.

They were also driven by the image of "miracle Asia." Nobody was paying much attention to the growing imbalances in the banking systems or to other risk factors.

The inflows put upward pressure on the exchange rate. The attention of the monetary authorities and of speculators and investors was on the chances of preventing appreciation of the exchange rate. Nobody was thinking depreciation. Nobody was hedging against a currency sell-off.

THE REAL ECONOMY'S VULNERABILITY

The proximate source of real economy vulnerability was the deterioration in the current account in all the affected countries, especially in 1995 and 1996. Falling export growth was the main cause of the rising deficits. This reflected, first, a fall in demand for some of the main exports, notably semiconductors in the case of South Korea (semiconductors were the country's most important export). Falling export growth reflected, second, declining competitiveness as a result of domestic costs rising faster than productivity. This occurred because capital inflows, combined with the currency peg, led to the appreciation of the domestic currency. The real exchange rate appreciated in all five of the most affected countries in 1995 and 1996, choking exports.

Third, from the spring of 1995 onward the yen fell against the dollar (from a peak of 80 in 1995 to 147 in June 1998). Investments in Southeast Asia that had been competitive at the earlier exchange rate were now less competitive, as the local currencies rose with the dollar; much investment now looked to be "excessive." Fourth, the terms of trade (export prices over import prices) were trending downward, especially because of competition from China. And fifth, China gobbled up export markets in the United States and Japan during the 1990s.

But investment continued to surge throughout the region, much of it into a narrow range of sectors, and productivity and profits began to suffer. At the margin, companies put more and more investment into nontradeable speculative ventures, including property and land. Thailand, Malaysia, and Indonesia all experienced speculative property balloons inflated by foreign finance.

Moreover, the affected countries were highly integrated (roughly half of total trade was intraregional) and moving into the downside of the business cycle at the same time. Had they been less integrated or less synchronized, the regional multiplier effects would have been much smaller. (Tai-

wan has survived relatively unscathed partly because it already had its boom and bust in the early 1990s. By the time this crisis hit the region Taiwan's banks were in relatively good shape.) The third vital element in the regional picture, after integration and the wrong end of the business cycle, was the stagnation of Japan, whose GDP amounts to two-thirds of total East and Southeast Asian GDP.

In short, the vulnerability of the real economy in Asia did increase in the few years before the crisis. Price and investment trends led to growing current account deficits. Also, at least in Thailand and South Korea, new civilian democratic regimes altered the central policymaking technocracy and lost focus on national economic policies. Government-bank-firm collaboration came to be steered more by the narrow and short-term interests of shifting coalitions. Their experience is bad news for the proposition that more competitive politics yield better policies.

THE GATHERING PANIC

Granted that the whipsaw movement of capital inflows and outflows is the main proximate cause of the crisis, could it have happened without serious vulnerabilities in the real economy? Almost certainly, yes. We know from history that financial crises can occur in the absence of prior signs of vulnerability (though any self-respecting analyst can find vulnerabilities after the fact). Indeed, when times are good and demand is growing fast, firms tend to assign increased weight to past positive experience and underestimate the probability of loss associated with some of their investment projects. They may cut back their cushion of safety (probable cash flow minus probable fixed payments) and thereby become more vulnerable to a downturn. This is how, paradoxically, the passage from a sound to a fragile to an unstable financial system can occur even faster after a period of good times than after a period of uncertain times.

Also, we know that bankers and money managers tend to exhibit herd-like behavior, since any individual banker or bank will be faulted by management or shareholders for missing out on business that others are getting, but will not be faulted for creating losses when everyone else is also generating them. The effect is compounded by information cascade, such that the entry or exit of one prominent actor is interpreted by other actors to signal that the situation is better or worse than they thought. They then enter or exit for reasons related not to their own independent assessment of risk

and reward but to their presumption that the first actor knows something they do not.

Decreasing export growth and rising current account deficits by 1995 and 1996 made for mild concern among international banks and money managers, especially in relation to Thailand. But doubts were held at bay by the continuing fast growth and the image of miracle Asia. Then the outlook for speculators and investors in the European and United States markets improved in 1997. Interest rates looked set to rise, presenting lenders with opportunities for higher risk-adjusted returns than they had had before. Equity markets soared. In Japan, on the other hand, the outlook turned for the worse in the second quarter of 1997. In early May 1997, Japanese officials, concerned about the decline of the yen, hinted that they might raise interest rates. The threat never materialized. But the prospect of a rise in Japanese interest rates in order to defend the yen, plus the worries that were circulating about Thailand's currency, plus the brighter opportunities in the United States and Europe, raised fears among commercial bankers, investment bankers, and others about the safety of big investment positions throughout the region that were predicated on currency stability.

The Asia crisis proper began in Thailand in July 1997. Earlier, in 1996–1997, the Thai property and stock market bubbles had burst. Later the foreign banks realized they had large short-term foreign exchange loans to Thai borrowers that were unhedged and uncovered by Thai reserves.¹ Knowing that the profitability of their loans depended on the currency peg, they raced for the exits at the first signs that the peg might not hold. As they sold holdings in Thai baht, the country's foreign exchange reserves ran out. The baht was floated in early July 1997, and sank. The IMF entered Thailand

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in August 1997 with a support package and conditionality measures that included the freezing of many finance companies. This was the start of what Harvard professor Jeffrey Sachs has called the IMF's screaming fire in the theater.² The freezing of finance companies sent uninsured depositors into a panic. Later the IMF imposed the closure of some domestic banks in Indonesia with the same result (inevitable where deposits are uninsured).

Taiwan's small (12 percent) devaluation in October, despite its towering foreign exchange reserves, acted as a firebridge from Southeast to East Asia. After Taiwan's unexpected devaluation the Hong Kong dollar and the South Korean won suddenly looked set for devaluation also. As holders of these currencies, too, tried to pull out, the crisis grew

from a "Southeast Asian" crisis to an "Asian" crisis. From October to December, Japanese, American, and European bankers demanded full repayment of interest and principal from their South Korean borrowers as short-term loans came due, leaving the Korean government with no option but to turn to the IMF. The IMF and South Korea signed a \$57 billion rescue package in early December. In mid-December the Koreans revealed that their short-term debt was nearly double what

they had said just the previous week, or \$95 billion. The gap between \$95 billion and \$57 billion left scarcely a dry pair of pants in the official community on either side of the Pacific.

A large rescue package at this point could have stopped the crisis from spreading. Better information about bank and corporate balance sheets might also have checked the panic by enabling investors to discriminate between good and bad assets. Instead, the perception shifted from miracle Asia to "Asian crony state capitalism" almost overnight. "Crony capitalism," a label originally coined by activists in the anti-Marcos struggle in the Philippines, was now appropriated to convey a "told you so" moral about the dangers of government intervention.

Once floated, the region's currencies fell in vicious iteration with domestic bankruptcies. As foreign banks that had been routinely rolling over their short-term loans began to demand repayment of not only the interest but also the entire principal, highly leveraged firms found their cash flow insufficient to cover their now much higher payment

¹Unhedged means that the borrowers had not made a contract (in the forward market or through an option) to buy dollars at a specific baht-dollar rate. They had not done so because such contracts add to their costs, and they, like everyone else, thought the baht would not be devalued. When the lenders realized that the baht might be devalued and that the borrowers had not hedged, they also realized they might not be repaid—and tried to call in their loans, helping to create the crisis.

²Jeffrey Sachs, "The IMF and the Asian Flu," *The American Prospect*, March–April 1998.

obligations. A fast rising number of often well-managed and profitable firms were cut off at the knees. They started to reduce their cash outflows by delaying payments to suppliers, cutting back on expenditures, and firing employees, and also raised cash by selling inventories at cut-rate prices and selling assets at whatever they could fetch.

The process fed through from firms to banks as banks wrote off loans and wrote down assets. Their calling in of loans put pressure on their borrowers, and banks that went bankrupt put pressure on their depositors. The financial economy and the real economy dragged each other down.

This is "debt deflation," akin to that seen in the Great Depression. Debt deflation is a downward pressure on prices of both products and assets at a time when investment demand is falling, resulting in a rising real value of debt. It is given a strong twist in Asia by the devaluation-induced rise in the price of imports, including intermediate goods and medicines. Asia is now caught in the slow, painful unfolding of debt deflation with import inflation. It is all the worse because of Asia's high debt-to-equity ratios; any increase in interest rates, fall in cash flow, or devaluation impart a bigger contractionary effect than where debt-to-equity ratios are lower. This is how, in the chaos theory metaphor, the butterfly that flapped its wings in Thailand caused a hurricane across Asia.

THE WRONG PLAN, IN THE WRONG PLACE, AT THE WRONG TIME

The IMF's interventions in Thailand, Indonesia, and South Korea (and informally in Malaysia, without funding) have made things worse than need be, according to this story. Misdiagnosing the crisis as a macroeconomic balance of payments problem (the type of problem it is used to dealing with) rather than as a microeconomic debt deflation problem, and as a crisis of excess consumption rather than excess investment, it insisted on a domestic austerity package and on fundamental structural reforms in return for bailout funds. It justified large increases in real interest rates on the grounds that high rates would create incentives for domestic capital to stay at home and foreign lenders to resume lending, which would boost the currency. The currency boost would both make it easier for domestic firms to repay their foreign debts and check the dangers of competitive, 1930s-style devaluations.

This was the theory. In practice the increase in real interest rates, combined with other elements of the austerity package (tax increases, cuts in government expenditure), only depressed firms' cash flow and raised their fixed payment obligations, tipping more and more of them into insolvency, accelerating the capital outflows and reducing the inflows. In making the return of capital flows the priority, the fund forgot that private capital flows are cyclical rather than countercyclical. When an entire economy is sinking and instability abounds, foreign capital will not return, whatever the interest rate. Certainly the high real interest rates did not have the effect of reversing the currency falls in Asia. And the wider statistical evidence shows no clear relationship between the level of real interest rates and changes in the exchange rate.

A sharp dose of austerity may make sense for a Latin American-style excessive consumption crisis. But the Asian crisis was related to excessive investment (much of it in nontradeables), not excessive consumption. IMF demand compression has worsened already existing problems of excessive production capacity.

Similarly, being required to undertake fundamental structural reforms at the height of the crisis worsened confidence, reinforcing the "cronyism" image. Requiring a sharp rise in bank capital adequacy standards in the midst of the crisis caused a cut in credit, a rise in nonperforming loans, and further bankruptcies. The Asian experience confirms that the middle of a liquidity crisis is a bad time to make radical financial reforms.

The fund also required governments to guarantee the foreign debts of local firms and banks. Protected from default, foreign creditors hung back on rescheduling or rolling over the debt. This worsened the hard currency squeeze on local debtors, pushing them to buy foreign exchange to cover their increased dollar needs and adding to the exchange rate collapse.

These various policy mistakes help to explain why the slump has been so protracted. Their effects are compounded by the high debt-to-equity ratios of the corporate and financial systems, by the relatively high level of regional integration, by the synchronous movement of all the regional economies except Taiwan, and by Japan's stagnation. Mexico in 1994 recovered relatively quickly by exporting to the giant to the north, whose political structure was

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sufficiently institutionalized to accommodate a \$20 billion swing in trade balances in one year. Had Japan been expanding it might have played a similar role as the United States had for Mexico. Fears of further falls in the Japanese yen (even after the steep fall of June 1998 to 147 yen to the dollar) add to the continuing reluctance to invest and raise fears of competitive devaluations, notably in China and Hong Kong.

THE SHIFT TO CAPITAL CONTROLS

There are three broad ways to escape the depressionary effects of debt and deflation. One is monetary and fiscal expansion sufficient to devalue or vaporize financial claims through inflation. This is not favored by the holders of financial assets or the organizations that represent their interests. A second is bankruptcy and default, which destroys the debt but at the cost of crisis and collapse. A third is dogged repayment over a long period accompanied by painful squeeze of the real economy—the “water torture” route.³

Until recently, most Asian governments generally acquiesced to the IMF's strategy—in part because they needed the IMF's money and approval, and in part because they believed in it. Now that the cost of this option has become apparent a policy backlash has begun. It constitutes what the September 4, 1998, *Wall Street Journal* calls “the most serious challenge yet to the free-market orthodoxy that the globe has embraced since the end of the Cold War.”

In the face of steep losses of output and the threat of social unrest, and with huge current account surpluses to cushion the need for Western short-term capital, Asian governments are lowering interest rates and promoting a Keynesian fiscal expansion. Indeed, they are becoming more interventionist across the board in order to regain control of their economies. Some have described their actions as a rejection of Anglo-American capitalism, and look to China as a model since it has escaped relatively unscathed. Their turning away from the United States and toward China may have important long-term implications. And the mood is spreading well beyond Asia. “The ‘free market’ path of development—from developing to emerging to a developed nation—has failed to live up to the expectations of the people of the South,” said South African Deputy President Thabo Mbeki recently.

In particular, Asian governments and policy analysts are urgently discussing whether they should continue to allow financial capital to flow freely across their borders, as the IMF and the United States have insisted. They realize that whatever the balance between the “real” and “financial” causes of the crisis, the capital account opening that they undertook in the 1990s is centrally implicated. Capital account liberalization first allowed large and uncoordinated inflows and then torrential outflows in the second half of 1997 and on into 1998. Recall that the switch in flows between 1996 and 1997 amounted to some 11 percent of the combined GDP of the five crisis-affected countries. China has escaped the direct impact of the crisis in large part because its currency is nonconvertible, preventing both inflows and outflows of hot money (but not preventing foreign direct investment, of which China has enjoyed a great deal). Much the same applies to India.

Malaysia, which had been among the most open economies on the capital account, has gone furthest in reintroducing capital controls—explicitly following China. Indeed, the new special functions minister, Daim Zainuddin, announced that “Malaysia's new currency controls are based on China's model.”

The exchange controls put into place at the end of August in effect withdraw the Malaysian ringgit from the international currency trading system. Exporters are now required to sell their foreign exchange to the central bank at a fixed rate; that currency is then sold for approved payments to foreigners, mainly for imports and debt service. This system makes the ringgit convertible on the current account, as before, but not on the capital account. It thus prevents the buying of foreign exchange for speculative purposes. Residents cannot transfer ringgits to foreign bank accounts, and can take only a limited amount of foreign exchange for purposes of foreign travel. Nonresidents can convert ringgits into foreign currency only with the approval of the central bank. And sellers of Malaysian securities can only convert their ringgits into foreign exchange once they have held the security for 12 months. Holders of offshore ringgit accounts had from September 1 to October 1 to repatriate their ringgits, after which repatriation became illegal. With this last move the government ensured that the imposition of exchange controls, far from generating the always threatened punishment, capital flight, yielded a short-term, debt-free capital inflow.

³See Robert Wade, “Asian Water Torture,” *Financial Times*, June 23, 1998. This tends to be the preferred option of financial capitalists and the IMF.

Malaysia has not turned away from all forms of foreign capital. The controls are aimed specifically at short-term flows. They do not extend to foreign direct investment or the repatriation of interest, dividends, and profits. Current account transactions remain convertible; Malaysia remains committed to free trade.

Prime Minister Mahathir Mohamad accompanied this move with a stinging indictment of free markets. "The free market system has failed and failed disastrously." He added, "We have asked the International Monetary Fund to have some regulation on currency trading but it looks like they are not interested." He proceeded to sack Anwar Ibrahim, the deputy prime minister and finance minister and his heir apparent. Anwar had reassured international investors with his orthodox free market views and willingness to impose austerity measures. Although Malaysia had not taken IMF money and therefore had not come under a formal IMF program, Anwar had followed the IMF both in its broad strategy and in its specific advice to Malaysia.

The IMF's managing director, Michel Camdessus, said Malaysia's exchange controls were "dangerous and indeed harmful." United States Treasury Secretary Robert Rubin said that dramatic economic policy shifts by Malaysia were of concern to the United States and were "not the path that we think best lends itself to economic growth and stability over time."

Western financiers chorused disapproval. Solomon Brothers described Mahathir's measures as "regressive" and "ultimately destined to failure." Credit Lyonnais Securities (Asia) said that capital controls would turn Malaysia into "an equity black hole" for foreign investors. Indosuez W. I. Carr said the measures make "Malaysia virtually uninvestable." The underlying and doubtful assumption is that Malaysia, notwithstanding one of the highest savings rates in the world (37 percent of GDP in 1995), needs Western finance not only for immediate refinancing purposes but also in the longer term.

Mahathir has been voicing antimarket sentiments for some time, earning himself the reputation for being what might politely be called a lone voice. But even in economies that had been celebrated as exemplars of free market capitalism, policies are being implemented that make free market economists throw up their hands in horror.

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Hong Kong is the most dramatic case. GDP is expected to contract by over 4 percent in 1998. Throughout the summer of 1998 it faced intense attacks by hedge funds against the Hong Kong dollar (pegged to the United States dollar in a quasi-currency board arrangement). The hedge funds calculated that when competitor countries had devalued by 30 to 40 percent or more against the United States dollar, the Hong Kong dollar would have to be devalued as well.

In response the government has been intervening to restrict various forms of trading on the stock market so as to ease the pressure on the Hong Kong dollar. And it has bought about 6 percent of the stock market, acquiring a national stake in the private sector. The aim was to hit the speculators by

intervening to keep the price of stocks high, to show them that shorting stocks was not a one-way bet. It worked. The hedge funds took big losses and backed off.

Even Taiwan, which has weathered the crisis better than many of its neighbors, has seen a 7 percent fall in its export earnings in the first half of 1998 compared with the first half of 1997; it has also experienced a 20 percent stock market fall between March and August 1998. Notwith-

standing its huge foreign exchange reserves, it too faces intense speculative pressure against its currency.

The policy response has been to insulate the New Taiwan dollar from the region's currency decline and bar foreign short-term investors while encouraging local investors. The government has been intensifying existing controls since May. The central bank virtually shut down trade in futures instruments used to pressure the local currency. Inflows of funds destined for the stock market are subject to central bank approval, allowing the authorities to influence demand for the currency. The offshore market in New Taiwan dollars has been closed. At the end of August the central bank issued a sharp warning that foreign currency speculators such as George Soros would be given "no quarter" to operate in domestic currency markets.

South Korea has all along kept in place some capital account restrictions on the convertibility of the won. And although the Korean government has not moved to impose Malaysian-type exchange controls it has become much more interventionist—and much more authoritarian. Many labor leaders

are in jail, and riot police are deployed in force during strikes and demonstrations against the government. In the financial sector, the government is moving quickly (unlike Japan) to buy up bad loans from the banks and force small banks to merge with larger ones, putting the banking sector on the route to recovery—although many firms are still finding credit difficult to obtain because banks continue to try to meet the Basel standards of capital adequacy, as they are obliged to do by OECD membership (under the standards formulated by the Basel Committee of Bank Supervisors, a bank operating internationally is required to maintain capital reserves equal to at least 8 percent of its outstanding loans). The big question now is whether the government will take the banks off the Basel standards, which might greatly alarm international financial markets.

Thailand has not introduced exchange controls, because it has no reserves left to defend and because it is entirely dependent on the IMF standby facility. But reaction in Bangkok recognizes that Mahathir, in Malaysia's situation, is not crazy.

Potentially the most dramatic development of all may come from the current discussion within Japan of reintroducing capital controls. Finance Minister Kiichi Miyazawa, at a press conference in early September before flying to San Francisco to meet Treasury Secretary Rubin and Federal Reserve chairman Alan Greenspan, was asked whether Japan was studying the option of erecting capital controls to protect against speculative attacks. In the words of the September 4, 1998, Reuters report of the conference, "He said it was too early to discuss that at the government level but added he had asked Toyo Gyohten, a special adviser to Prime Minister Keizo Obuchi, to study the issue." For the finance minister of the world's second-largest economy to say this just before meeting the two most powerful financial officials in the world, who are passionate opponents of capital controls, is remarkable.

WHY CAPITAL CONTROLS MAKE SENSE

Opponents of capital controls commonly combine all the possible things that can go wrong in all kinds of countries as reasons for not having the controls anywhere. But an important distinction must be made between two types of capital control. One is on inflows, especially borrowing in foreign

currency. The other is on outflows. Generally, controls on outflows are more difficult to implement effectively, especially in the midst of crises. Over- or under-invoicing is a favorite technique for getting money out of a country, since it is difficult to police. Inflows are much easier to control. There are plenty of ways by which hedge funds and portfolio investors can be discouraged from entering a country. Chile's inflow controls require investors to leave a portion of their funds with the central bank for a minimum period without interest before being able to put them to use. The sooner the funds are taken out of the country, the higher the effective tax. Malaysia's Mahathir holds up Chile as a model, even though he is presented in the West as "severing Malaysia's ties to world markets."

MIT economist Paul Krugman argues that Asian countries should introduce controls on outflows as a short-term emergency measure. But, with the important exception of Japan, there is a stronger case for semipermanent controls on inflows. Countries such as South Korea and Thailand, which are accumulating huge trade surpluses accompanied by foreign exchange inflows, can probably lower domestic interest rates and generate monetary expansion without appreciably weakening their currencies. Most of the hot money that went into emerging Asia over the 1990s has now left, so controls are not needed to prevent further outflows of institutional funds.⁴

Exchange controls or other forms of capital control are nevertheless needed for two reasons. One is to protect against excessive inflows. Here we need to distinguish between three types of inflows: first, short-term capital to refinance foreign loans until current account surpluses grow to the point where the loans can be paid back from the surpluses; second, foreign additions to domestic savings available for investment (including foreign portfolio investment); and third, foreign investment that goes along with technology, capital equipment, and management and marketing expertise. The Asian economies do need immediate help in refinancing their top-heavy foreign debt, and they do need technology, capital equipment, and some kinds of foreign expertise. But they do not need the huge inflows that they had been receiving of short-term financial capital. They have the highest savings rates in the world, and account for over half of world savings (East Asia and the Pacific saved an average of 38 percent of GDP in 1995, compared to South Asia's 20 percent, Latin America's 19 percent, and the high-income countries' 21 percent).

⁴Malaysia may need them for Krugman's reason, given that its current account surpluses are not nearly as large, and because its currency is especially exposed to short-selling speculators.

CAPITAL CONTROLS AT ISSUE

What is the evidence on the impact of keeping or removing capital controls? The benefits of removing them have yet to be demonstrated in empirical research. The risks of removing controls, however, are illustrated by the comparison between countries with convertible and nonconvertible currencies in the Asian crisis. China and India, which have strict controls, have both been relatively untouched. The risks are also suggested by the earlier history of this century.

The free market financial system in place at the beginning of the twentieth century was directly implicated in the financial crises and depression of the 1920s and the 1930s. The postwar Bretton Woods system of regulated currencies and closed capital accounts was a carefully designed response to these crises, and it worked. The Western industrialized countries had 25 years or more of economic success. As late as the beginning of the 1980s, only the United States, Switzerland, and Britain allowed the free flow of capital; Germany followed in 1984. Economic performance has not improved since the bulk of the OECD countries removed their controls; by many measures it has deteriorated.

R. W. ■

As was noted earlier, these countries overinvested in some manufacturing sectors and in essentially speculative ventures in real estate, infrastructure, and equities, resulting in inefficient investment, asset bubbles, credit excesses, and exchange rate overvaluation—the ills that led to the current crisis. They have not been able productively to absorb even domestic savings, let alone extra foreign savings. It is ironic that most of the critics who point to excessive, crony-steered investment as the root of the crisis insist that Asia will suffer if it limits inflows of short-term financial capital.

Capital controls are needed, second, to make these fairly small, fairly open economies less vulnerable to the whims and stampedes of portfolio and hedge fund managers, and more generally to reestablish stable growth. This is especially so in economies with high corporate debt-to-equity ratios. South Korea is a classic example of how free capital movements in the context of high domestic and foreign debt can destabilize an economy with good “fundamentals.” But the Hong Kong case shows how the same thing can happen in a small, open economy with low debt, large exchange reserves, and a current account surplus once short-

selling speculators wielding vast financial resources make it the target of an attack.

Although he does not make the distinction between Japan and the rest, Krugman's argument for controls on outflows does hold for Japan. Japanese nominal interest rates are below foreign rates. An aggressive monetary policy sufficient to jump-start demand requires negative real interest rates, which requires nominal rates much lower than foreign rates. At some point the disincentive of keeping savings at home will outweigh the risks of a Wall Street crash and a dollar crash. There is now a large potential for savings exports to occur. Until as recently as April 1998, such financial exports were restricted. In April they were allowed as part of the first stage of “Big Bang” financial liberalization. The financial outflows since then have contributed to yen weakness. More aggressive monetary expansion would likely cause more outflows and further yen depreciation, which could destabilize other currencies in the region.

In short, Asia is moving strongly in the direction of capital controls, and there are good policy reasons why it should. Yet it would be quite wrong to conclude that the movement to capital controls is robust. The shift on the ground in Asia has already encountered vehement opposition from the United States, Britain, and the IMF.

Consider the hyperbole with which Alan Greenspan, Undersecretary of the Treasury Lawrence Summers, and other American officials have denounced the moves in Asia. Greenspan's testimony to the House Banking Committee is particularly striking. He normally testifies blandly and ambiguously, and about many subjects all at once. On September 16, he spoke passionately, clearly, and about only one subject: the perils of capital controls. He equated the sort of exchange controls introduced by Malaysia with “closing the economy to foreign investment,” which in turn amounted to depriving the economy of “the benefits of new technologies,” causing it to be “mired at a suboptimal standard of living.” This is the voice of panic in the face of a threat to years of success in opening developing countries more completely to both trade and finance. He and other United States financial officials see it as imperative to make sure that the troubles in Asia are blamed on the Asians and that free capital markets are seen as key to world economic recovery and advance; the idea that international capital markets are themselves the source of speculative disequilibria and retrogression must not be allowed to take root.

Capital controls themselves are only the tip of the iceberg. The American and British governments wish to ensure that the current troubles do not derail the construction of a new international financial architecture built on the premise that free capital movements are the key to worldwide prosperity. They wish to remake other countries' financial systems in their own image. For the low-saving United States economy there is no more important foreign economic policy issue than this.

A REGIONAL SOLUTION

Asia's escape from crisis could be accelerated through regional cooperation between the governments and their central banks. The lack of regional cooperation—whether over debt negotiation or demand expansion—is one of the most striking features of the whole story. The region has the means to solve the crisis if only it could put them to work: some \$700 billion of foreign exchange reserves between China, Hong Kong, Taiwan, and Japan; growing current account surpluses in the crisis-affected countries (even if due more to import compression than export expansion); net creditor positions in terms of foreign asset ownership; and huge savings.

These endowments could easily provide the basis for an Asia Financial Facility. The facility would help member countries replenish reserves as soon as signs of distress became obvious, reducing the chance of speculative attacks and investor pullout. It is one thing to speculate against a currency backed by \$30 billion of national reserves, and quite another to speculate against a currency backed by \$300 billion of regional reserves. The facility would quickly disburse funds and its conditionality would be limited to stabilization rather than extended to structural reform. Even the first moves might shift perception from "failure" to "recovery" and send Western capital cartwheeling to take positions before prices rise—especially when Western stock markets fall from current valuations that are, in the United States case, twice the previous historic highs.

The main obstacle is political. Japan's proposal for an Asia Fund, made in mid-1997, was shot down by the United States Treasury, which wanted the IMF to have control of the rescue. Japan came back with a more modest proposal for a \$30 billion regional fund on October 1, but the country's leadership remains paralyzed by the power struggle between big manufacturing, wanting a weak yen, and banks, wanting a strong yen. China has shown

a moderate amount of leadership, and emerges from the crisis with its reputation enhanced relative to Japan's. But it is the United States Treasury under Secretary Rubin and Undersecretary Summers that has been shaping the overall strategy, both directly and indirectly by way of the IMF. The United States emerges from the crisis with much greater power in the region than it had before. And the United States does not want an Asian initiative that would exclude it from a central role. Nor does China want a Japanese-led fund.

Until Asian governments adopt expansionary policies, take control of short-term capital movements, and cooperate regionally, the crisis is likely to drag on and on, like water torture, bringing poverty and insecurity to hundreds of millions of people and turning parts of Asia into a dependency of the IMF and its number one shareholder. Recent policy changes suggest that this lesson is slowly being learned.

BLIND FAITH

"Real" or "financial" causes for Asia's crisis? Rational behavior, boundedly rational, or nonrational? Individually rational, collectively nonrational, socially suboptimal behavior? Specific and exceptional market failure, or normally working financial markets producing massive economic, political, and social failures (as in "The operation was a success but the patient died")?

The capital inflows to Asia were a function of capital account opening, fixed exchange rates, lack of bank supervision adequate for an internationalized system, depreciation of domestic currencies against the yen (because linked to the falling dollar before 1995), and higher returns to financial assets in Asia than in the United States and Europe. The outflows were a function of capital account opening, appreciation of domestic currencies against the yen after the spring of 1995 (because linked to the rising dollar), falling export growth, and rising current account deficits, the combination of the last two giving rise to fears of devaluation.

The causation also has another strand, relating to herding behavior and information cascades and the like, that links individual rationality with collective nonrationality or suboptimal behavior. What is striking about the Asia crisis is the abrupt shift of confidence from miracle Asia to crony Asia—a "gestalt shift," in the language of cognitive psychology. In the famous drawing of a vase or a pair of inwardly turned faces, we see either one or the other, not some of one and some of the other, and

the shift takes place instantaneously, not by degrees. This is a long way from the idea of the rational calculation of risks and rewards.

The notion of gestalt shift lends support to the panic story—that the crisis was caused in large part by speculator and investor pullout from economies that but for the pullout would have remained viable enough to generate returns within the normal range. The panic, in other words, was not simply the “trigger” or messenger of a crisis: the panic was a primary cause. The change in perceptions and behavior was much bigger than the change in real factors could warrant.

This line of argument suggests that had the massive outflow not occurred in Thailand or had it been reversed in a matter of a couple of months, the Asia crisis would not have happened. One can see several turning points where things might have gone differently. Had the Japanese government not made a colossal macroeconomic error in the spring of 1997 by raising taxes as the economy was slowing, the Japanese economy might still have been expanding. Had Japan in August 1997 matched its pledge to play a large role in promoting financial stability in the region with a contribution to the Thai bailout of \$10 billion rather than \$4 billion, confidence may have been restored. Ditto had the United States Treasury not shot down Japan's Asia Fund proposal. Ditto had the United States Congress not declined to provide more funds to the IMF in November 1997 because of a dispute about an *abortion*-related amendment to the country's foreign aid program. It took an unlikely conjuncture of these and several other events to produce a crisis on anything like this scale.

This view also throws doubt on the popular moral hazard argument for why the inflows were so big. The moral hazard argument says that lenders lent appreciably more than otherwise because they believed they would be covered by implicit government or IMF guarantees. But the hypothesis is advanced without evidence that, for example, lenders lent more to companies, banks, sectors, and countries where there was a stronger prior presumption of bailout. It is equally plausible that lenders were paying no attention to downside risks, being carried along by the gestalt of miracle Asia and the incentives for herd behavior.

Much the same point applies to the popular “lack of transparency” hypothesis about the size of the inflows: that lenders lent more than they would

have had they been better informed about balance sheets, foreign exchange reserves, and foreign debts. In fact, a large amount of relevant information was publicly available; for example, the Bank for International Settlements' commentaries from early 1995 onward stressed the buildup of short-term foreign debt. But investors were not paying attention until after the crisis hit, at which point they refocused from macro indicators to the micro indicators of debt maturity structures and the like that they could have been tracking all the while had they a mind to. On the other hand, lack of transparency may have a significant role in explaining the magnitude of the panic, and hence the size of the outflows, since creditors and investors came to believe they had no reliable basis to discriminate between good and bad assets.

The IMF argues that its far-reaching conditions for austerity and institutional reform boosted confi-

The United States does not want an Asian initiative that would exclude it from a central role.

dence as investors saw governments taking firm action to repair underlying vulnerabilities. The gestalt shift argument says, in contrast, that the news that the IMF was demanding a whole series of fundamental structural changes aggravated the loss of confidence, prompting a bigger rush for the exits.

The latter argument raises an interesting question of causality. IMF critics have pointed out that no sizable changes occurred in national institutional structures in the last year or two before the crisis, and go on to ask how, given this, institutional factors could be assigned a large role. But weaknesses such as lack of bankruptcy codes and creditor rights may exist for years without causing difficulties, provided growth remains high. Once growth falters these same constant weaknesses may help to bring on a crisis and hinder the resumption of growth. The question remains, however, whether the fund should have insisted on reforms in such areas in the midst of a liquidity crisis.

However the explanation is parsed, capital account opening is central. It exposed domestic financial structures—which had been strong enough to allocate huge domestic savings to generally productive and profitable investments over many years—to unbearable strain. Yet the IMF, the United States, and Britain now insist that the crisis demonstrates the importance of liberalizing the capital account even more, although in an “orderly” fashion. Orderly means with a proper regulatory and supervisory regime in place. The way to create that regime, they say, is to bring in foreign banks

and financial services firms to operate in the domestic market. They will demand an effective regime and help supply the skills with which to operate it. In return, they will require freedom to enter and exit as they wish, and national treatment (parity with domestic firms, or better).

Even with a sizable sector of foreign financial firms, developing an effective regime will take many years. And duration aside, regulation according to whose norms? The norms of a capital-market-based Anglo-American system are very different from those of a bank-based Asian system. The latter reflect the functioning of a system that allows firms to carry much higher levels of debt than consistent with Anglo-American prudential limits. The system has powerful developmental advantages as well as higher risks of financial instability. And it also seems to be a response to very high levels of household savings that are deposited in banks. A regulatory regime based on Anglo-American norms of prudent debt-to-equity ratios will probably not work in these conditions.

The idea that the way to avoid more Asian-style crises is to integrate national economies even more fully into world capital markets is implausible. As Harvard economist Dani Rodrik remarks, "Thailand and Indonesia would have been far better off restricting borrowing from abroad instead of encouraging it. Korea might just have avoided a run on its reserves if controls on short-term borrowing

had kept its short-term exposure to foreign banks, say, at 30 percent rather than 70 percent of its liabilities. On the other hand, which of the recent blowups in international financial markets could the absence of capital controls conceivably have prevented?" As Rodrik, World Bank economist Joseph Stiglitz, and Columbia University economist Jagdish Bhagwati have argued, there is little empirical evidence that capital account opening improves economic performance.

Rodrik notes that the greatest concern about capital account convertibility, however, is that it brings economic policy in developing countries even more under the influence of international capital markets—the influence of a small number of country analysts and fund managers in New York, London, Frankfurt, and Tokyo. Even if it were the case that free capital movements led to efficiency in the allocation of capital and thereby maximized the returns to capital worldwide, governments have much more than the interests of the owners of capital in view—or ought to have. They want to maximize the returns to labor, to entrepreneurship, to technical progress, and to maximize them within their own territory rather than somewhere else; they want to provide public goods that contribute to the good life. Only blind faith in the virtues of capital markets could lead one to think that maximizing the returns to capital and promoting development goals generally coincide. ■

"Curtailing United States participation" in the World Trade Organization and the International Monetary Fund "will not address the costs and risks imposed on American businesses and workers by unfair foreign competition. . . . United States interests can best be served by better equipping the WTO and IMF to establish and enforce rules for global markets that promote more open competition, respect for the environment and workers' rights, and transparency in financial transactions."

Managing the Global Economy's Managers

PETER MORICI

Globalization has contributed significantly to the resurgence of the United States economy. Since 1985, exports have accounted for one-third of the country's economic growth. New foreign sales have been concentrated in knowledge-based industries such as telecommunications, microelectronics, pharmaceuticals, and financial services. American export industries spend four times more on research and development and exhibit much greater labor productivity than other industries. Their ability to make better products with fewer workers, and sell ever more abroad, has helped create the country's recent combination of high growth rates, low unemployment, and modest inflation.

However, globalization also imposes costs. The middle managers and professionals victimized by downsizing are often employed by export-oriented corporations that face relentless pressures from foreign competitors to cut expenses. Blue-collar workers in industries that manufacture wares such as consumer electronics and automobile parts continue to lose jobs to imports of these products from Asia and Latin America that have been produced with low-wage labor. At a broader level, the ongoing Asian and Russian economic crises illustrate how globalized markets can make Americans vulnerable to foreign economic mismanagement.

In November 1997, American anxieties about

globalization became especially evident when the Democratic leadership in the House of Representatives derailed President Bill Clinton's bid to win congressional approval for "fast-track" authority to launch new negotiations in the World Trade Organization (WTO) and expand the North American Free Trade Agreement (NAFTA).¹ And this year, public dissatisfaction with international institutions contributed to congressional reluctance to replenish IMF resources.

In the wake of defeat, fast-track proponents explained the failure to pass the measure by pointing to the reliance of congressional Democrats on organized labor for campaign support. Fast track failed, however, because the Clinton administration and its supporters did not establish a clear link in the public mind between international commerce and American prosperity, acknowledge the risks posed by globalization, nor articulate strategies to address them. Conversely, fast-track opponents made clear to voters the potential dangers to jobs and wages.

Voters' fears are well founded. The WTO and IMF define the rules for global markets. Yet WTO rules do not address many unfair foreign trade practices that exacerbate competitive pressures on American businesses to cut staff and limit wages, and IMF bailouts of troubled economies appear to increase the likelihood of more financial crises in the future. A lack of understanding of these organizations' roles and mandates is creating a backlash that has hampered efforts in Washington to construct a credible progressive policy.

THE WTO'S SHORTCOMINGS

Since 1995, the WTO has administered a system of trade agreements. The two most important are

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¹Fast-track authority would permit the president to negotiate trade agreements that Congress must approve or disapprove without amendment.

the General Agreement on Tariffs and Trade (GATT), which was established in 1947 and limits tariffs and government practices that directly restrict imports, and the General Agreement on Trade in Services, which came into force in 1994 and defines the rights of service providers doing business abroad. Supplementing these are specialized agreements for areas of government regulation that may affect international commerce—government procurement, product standards, patents and copyrights, and industrial subsidies, for example—and several sectoral agreements governing areas such as agriculture, banking, and telecommunications.

Three characteristics of the WTO system are critical. First, new WTO agreements are not directly enforceable in most member country courts. Rather, for WTO mandates to take effect, member governments must enact laws and regulations implementing the WTO agreements, and their administrative agencies and courts must enforce them.

Second, WTO rules apply only to government actions. Although they indirectly influence private behavior through their effects on the laws and regulations governments enact, private businesses cannot be held accountable before the WTO when they engage in unfair competition. Many government policies that strongly influence whether private actors discriminate against foreign products and firms are not subject to WTO rules. Critical loopholes in WTO rules include most aspects of antitrust law, the regulation of foreign investment, and environmental and labor laws.

Third, the WTO does not seek out violations of its rules to compel compliance. The system is self-enforcing, relying on member governments to lodge complaints against other members. Complainants must gather evidence to prove violations, which is costly and time consuming.

WTO agreements, by substantially curtailing government-imposed barriers to trade, have opened United States markets to foreign competition. Yet American exporters and firms doing business abroad continue to face tough barriers because other governments often do not adequately enforce laws enacted to comply with their WTO obligations. At the same time, private businesses are often encouraged to discriminate against United States products and businesses because of their govern-

ments' failure to break up cartels and other unfair competitive practices. Further, many developing-country governments use foreign investment regulations, in place of WTO-prohibited trade tactics, to limit imports. These practices reduce exports from and increase imports to the United States, and thereby reduce the profits earned and the number of high-paying jobs created by American businesses.

For example, the WTO intellectual property rights agreement requires member governments to protect foreign patents, copyrights, and trade secrets from unauthorized use and theft. Yet American businesses fall victim to piracy in countries as diverse as Ireland, Japan, Brazil, and India because governments do not enforce intellectual property laws written to comply with the agreement or have failed to enact such laws. In Ireland, courts require costly procedures and impose insignificant penalties in film and video piracy cases. In Japan, courts require disclosure of trade secrets in enforcement suits, compelling businesses to reveal the essence of their proprietary advantages or forgo legal remedies.

According to industry estimates, foreign piracy costs the United States motion picture, music, and entertainment software industries more than \$18 billion annually in exports. Under the WTO self-enforcement system, the United States would have to document these violations country by country to obtain relief. This daunting task is beyond the resources of the office of the United States trade representative.

In another example of unfair competition, in Japan, *keiretsu* ownership structures establish exclusive sourcing arrangements among manufacturers, suppliers of industrial materials and components, and distributors of goods and services.² These private practices handicap American, European, and other exporters of automobile components, computers, construction and engineering services, photographic supplies, telecommunications equipment and services, and financial services attempting to penetrate Japanese markets. In the United States and European Union, such practices would violate antitrust laws; in Japan, exemptions to antitrust laws prevent foreign firms from obtaining legal remedies. Absent WTO standards for antitrust enforcement, United States officials can offer only limited assistance to American exporters by lobbying the Japanese government.

To cope with trade barriers and competition from lower wages in developing countries, many United States manufacturers of advanced products such as automobiles and computers assemble products

² The *keiretsu* are alliances of major firms across the full range of industries—mining, various branches of manufacturing, finance, wholesale and retail distribution, and other services.

abroad. However, when licensing foreign investment, host governments often require foreign manufacturers to perform domestically activities that could be done more efficiently in the manufacturers' home countries.

For example, in Asia and Latin America, American, Japanese, and European automakers have been required to purchase components locally and to train domestic suppliers in product and design techniques. Local sourcing requirements clearly violate WTO rules; however, they often result from confidential negotiations and are difficult to document, especially with the precision required for a successful WTO complaint.

ENVIRONMENTAL AND LABOR ISSUES

Many developing countries attract foreign investment by paying scant attention to the environmental consequences of industrial activity. This effectively subsidizes exports to the United States and other developed countries in industries such as mining, metals, chemicals, and pulp and paper with potentially high resource-reclamation and pollution-abatement costs. Similarly, by tolerating child labor and unsafe working conditions, and by restricting union activities, many governments artificially depress labor costs and effectively subsidize labor-intensive industries such as textiles, footwear, and consumer electronics.

Unlike the cost advantages conferred by abundant labor or natural resources, disregard for the environment and workers' rights is not a legitimate source of comparative advantage. Yet WTO rules require the United States to accept imports aided by these practices, and this increases the competitive pressures globalization imposes on American workers.

Historically, economists have argued that the effects of pollution are largely local; therefore, abatement standards should be set domestically, not internationally. WTO rules permit governments to block imports whose characteristics would jeopardize local environmental standards, such as foreign cars that fail to meet local emission requirements. WTO members, however, are not permitted to bar imports merely made in environmentally offensive ways, such as steel made in a polluting foreign mill.

Over the last 20 years, the environmental consequences of industrial activity have become increasingly recognized as global, not merely local. Recently negotiated international agreements to limit global carbon dioxide emissions and ozone depletion demonstrate this. WTO rules, by not estab-

lishing the legal basis for members to bar imports made in ways not permitted within their own borders, encourage more polluting industries to move to countries with lax environmental enforcement. Ultimately, this increases global pollution and the costs of achieving international environmental goals.

On the issue of workers' rights, many free traders argue that the United States should not impose its values on developing countries by seeking a WTO agreement that would require governments to enforce child labor and workplace safety rules and permit workers to unionize. Yet many WTO agreements were negotiated in the context of intense conflicts between the values of developed and developing countries.

For example, the framers of the intellectual property rights agreement had to balance American concerns about adequate incentives for pharmaceutical research and developing country concerns about the social consequences of higher drug prices. WTO rules mandating reasonable protection of workers' rights would be no more intrusive on some countries' values than are WTO rules for patents.

THE FINANCIAL SIDE

The IMF was established in 1944 to oversee a system of fixed exchange rates. Essentially, the dollar was pegged to the price of gold, and other currencies were pegged to the value of the dollar. Governments sought to maintain these relationships by managing inflation, imports, and international capital flows through spending, tax, and interest rate policies; the IMF became highly skilled in evaluating these macroeconomic policies.

By the late 1970s, fixed exchange rates among major currencies had been abandoned, and the IMF's focus shifted to assisting developing and former nonmarket economies that could not pay their foreign debts. As the Asian crisis illustrates, the IMF is not properly structured to fulfill this role.

Most East and Southeast Asian nations have pursued variants of the Japanese economic development model, which entails substantial state direction in choosing investments, limits on foreign participation in banking and finance, and policies to promote exports and limit imports. This approach requires close collaboration among government ministries, businesses, and banks to channel domestic savings and foreign capital into government-favored investments. Often it resulted in poor lending decisions, overinvestment in export industries such as automobiles and electronics, and questionable accounting practices.

The result was a pile of debt, owed by Asian businesses through local banks to banks in Japan, the United States, and Europe. Servicing this debt required dramatic growth in exports to creditor countries, and from 1989 to 1995, exports to industrialized countries increased 15 percent a year. However, in 1996, this growth slowed to 1.4 percent, and during the first half of 1997 it dropped to zero. Exporters began slashing prices to raise cash to pay loans. This revealed the scope of excess capacity in Asian export industries, and the unsustainability of their debts. Foreign investors fled, and dollar exchange rates for Asian currencies plummeted.

The Asian economic contraction is significantly curtailing United States exports of commercial aircraft, computers and software, industrial equipment, and other high-tech products. Low values for Asian currencies are threatening to flood American markets with inexpensive apparel, consumer electronics, toys, and other products. Together, fewer exports and more imports increase pressures on major American businesses to reduce staff and hold the line on wages.

IMF rescue packages for Thailand, Indonesia, and South Korea require their governments to reduce barriers to imports and foreign investment, raise taxes, cut spending, and reorganize their banks. The fund's efforts to liberalize trade and investment regimes deserve high praise, and its tax and spending prescriptions, although controversial, will further reduce government intervention in domestic economies; however, its rescue efforts for ailing banking systems are troubling.

Essentially, the IMF has become the lender of last resort for developing country banks, even though it imposes no standards on the member country bank regulatory systems, accounting practices, or development strategies that could undermine the integrity of banks. Moreover, the IMF has no mandate to impose such requirements until a member encounters a crisis and seeks its help.

Similarly, as bailouts for Mexico in 1995, Russia in 1996 and 1998, and many other countries in recent years illustrate, the IMF also has become a lender of last resort for governments that imprudently borrow to finance large operating deficits, assist state-owned enterprises, and subsidize commercially unsound investments. Yet the IMF also lacks authority to require member governments to adopt sound spending and tax policies, or wisely

use the proceeds from commercial bank loans and bonds, until a crisis forces them to the IMF lending window, at which point the IMF can impose conditions on lending. Moreover, once crises pass, sovereign governments can return to their old ways.

By repeatedly bailing out debt-ridden economies, the IMF encourages commercial banks in New York, London, and elsewhere to be incautious when extending credit. This increases the likelihood that developing countries will continue to go through cycles of overborrowing and financial collapse, which can create great instability in global financial markets and magnify the risks imposed by globalization.

FINDING SOLUTIONS

To better ensure that American businesses and workers are not subjected to unfair competitive practices or unnecessary risks, the mandates of the WTO and IMF should be extended and redirected, not curtailed.

As for the WTO, in the next round of multilateral trade negotiations the United States should attempt to strengthen the enforcement of existing rules and initiate new agreements for antitrust, investment, and environmental and labor standards.

Currently, the WTO Trade Policy Review Body, on the basis of an independent report prepared by the secretariat and policy statements by governments under review, audits the trade policies of member countries or trading blocs every two, four, or six years, depending on the size of their trade. Although these trade policy reviews (TPRs) highlight flagrant areas of noncompliance with WTO rules, they are not intended to be a mechanism for enforcement. The TPR process does not take information directly from private businesses that encounter discrimination in the countries under review. Often TPRS ignore, or paint forgiving pictures of, government practices that finesse WTO rules, and they offer optimistic assessments of member government claims that new or soon to be enacted laws and regulations will bring questionable practices into WTO compliance. TPRS also fail to establish mandatory timetables for ending country practices that violate WTO rules.

For example, the 1998 TPR for Japan noted regulatory changes intended to bring intellectual property laws into closer compliance with WTO requirements but it did not address the problems created by the Japanese practice of requiring busi-

Disregard for the environment and workers' rights is not a legitimate source of comparative advantage.

nesses to disclose trade secrets when seeking legal remedies.

The 1996 TPR for South Korea reported that low-interest loans to industry from government-owned banks, as a share of total bank lending, had been substantially reduced. It made no mention of government efforts to channel private commercial bank credit into favored industries, and stated that bank supervision had been tightened and that bad loans made up less than 1 percent of bank liabilities. Yet after the Asian currency crisis the *Wall Street Journal* reported in early August that decades of providing government-directed loans without much credit analysis had left South Korean banks swamped with bad debt.

TPRs must become more realistic in their analysis and tougher in their conclusions. They should go beyond noting the enactment of laws and regulations and rigorously examine their specific implementation and effects on foreign competitors. In this regard, TPRs should actively solicit testimony from businesses (and the unions representing their workers) that sell products in, or compete with exports from, countries under review. The WTO should be empowered to establish firm timetables in which questionable practices can be brought into compliance, and to authorize the imposition of selective trade measures, such as tariffs, if timetables are not met.

A new foreign investment agreement requiring greater transparency in licensing foreign investment and prohibiting governments from imposing technology transfer requirements, or other conditions that alter the normal commercial decisions of enterprises, would significantly curtail the use of foreign investment policies for protectionist purposes. However, closing the loopholes created by lax antitrust enforcement poses more vexing problems.

In many countries, competition among domestic firms is vigorous even when private collusion excludes imports. For example, in Japan the major keiretsu compete vigorously in the domestic automobile and consumer electronics markets but impose harsh limits on access by outsiders to their wholesale and retail distribution channels. This severely limits access to Japanese distribution channels by foreign firms.

Nevertheless, an effective WTO antitrust regime should be built on two principles. First, national governments should be required to take all the necessary steps to ensure that foreign firms are not denied access to domestic markets by the exercise of monopoly power by domestic firms; by the

refusal of domestic firms to deal with foreign businesses on terms as favorable as those they offer other domestic businesses; or by collusion or formal and informal agreements among domestic businesses. Second, governments must ensure that foreign firms enjoy access to private distribution channels, advertising, and other services necessary to market products on terms as favorable as those enjoyed by domestic firms. These two principles would make governments accountable before the WTO for private discrimination against foreign products and firms.

To ensure that lax environmental standards are not used to attract investment or promote exports, a WTO committee should be established to define minimum standards for pollution abatement and the preservation of renewable resources in industries such as mining, fishing, chemicals, metal refining, and pulp and paper. On approval by the full WTO membership, these would apply to new plants, and long phase-in periods could be afforded existing facilities in developing countries. Similarly, minimum standards for child labor, workplace protections, and the right to unionize could be established in the WTO, with the stringency of some rules varying on the basis of national income per capita. Although such rules would be difficult to negotiate, they would be no more difficult to achieve than the recently negotiated WTO rules for intellectual property.

The WTO would then audit both environmental and labor standards enforcement as part of expanded TPRs, and it could investigate complaints from member governments about violations in specific plants and locations. When violations were found, but not corrected, the specific industrial facilities could be cited and member governments would become free to bar imports from these facilities.

Currently, the WTO permits the United States to bar imports of unauthorized copies of patented and copyrighted materials, and the United States imposes civil and criminal penalties on businesses and individuals that purposefully import such products. Extending such enforcement to products that violate environmental and labor standards could open the door to significant protectionist abuse by groups seeking to block imports made with low-wage labor. However, establishing clear WTO rules in these areas, and limiting the application of trade measures to violations verified through WTO review, would both foster environmental protection and workers' rights, and safeguard open trade.

To support a strengthened WTO and ensure more stable international financial markets, the IMF over-

sight authority should be expanded to reflect its changed role. Specifically, IMF members should adopt minimum standards for public accounting and bank regulation in member countries and prescribe guidelines for audits and financial reporting of banks, state-owned enterprises, and privately owned businesses seeking bank credit, issuing stocks and bonds, or receiving government assistance. Similarly, governments should be required to disclose in detail national budget expenditures on infrastructure projects and subsidies to state-owned enterprises and private firms. IMF member governments could be given a reasonable period—five years, for example—to comply with these rules, and the IMF and the World Bank could cooperate in offering training for regulators, accountants, and bankers in developing countries. After the transition period, the IMF would offer financial assistance only to nations that have implemented these standards.

THE GREATER GOOD OF GREATER TRANSPARENCY

All of this would facilitate what economists call greater transparency in financial markets. Com-

mercial banks in the United States, Europe, and Japan, for example, could then access much better information about the creditworthiness of borrowers in developing countries, and would have strong incentives to concentrate their lending in countries that meet IMF standards. The United States could further support this process by requiring its commercial banks to set aside high contingency loss reserves for loans to countries that do not meet IMF standards.

Although congressional reluctance to support Clinton administration initiatives for the WTO and IMF is understandable, curtailing United States participation in these institutions will not address the costs and risks imposed on American businesses and workers by unfair foreign competition and the potential for global financial instability. Rather, United States interests can best be served by better equipping the WTO and IMF to establish and enforce rules for global markets that promote more open competition, respect for the environment and workers' rights, and transparency in financial transactions. ■

A group of "Latin intellectuals and left-leaning politicians" is determined to put Latin America on a new course to prosperity and equality. "The group's goal of rolling back the Washington Consensus and ushering in a model based on productive investment and a democratized economy sounds like a pipe dream. But time and trouble may be on its side."

A Fourth Way?

The Latin American Alternative to Neoliberalism

LUCY CONGER

Latin America weathered fairly well the initial financial shock from the Asian turbulence that began last fall, primarily because Brazil spent \$8 billion to defend its currency and thereby kept the region's largest economy on course. In subsequent months, Latin America suffered a trade shock as the Asian tsunami lapped at its shores, gouging prices of key Latin commodity exports such as oil and copper and creating stiffer competition for Latin products in markets like the United States.

Hopes that the region could withstand the buffeting from Asia were dashed when Russia devalued the ruble and defaulted on its debt this August. In the last hellish week of that month, Latin American stock markets sank as much as 10 percent on investor concerns about Russia, and some of the region's leading economies suffered attacks on their currencies. Still licking their wounds, the large Latin nations were hammered again on September 3 when Moody's, the international credit-rating agency, downgraded the ratings of Brazilian and Venezuelan debt and placed Mexico and Argentina on a "watch" for a possible debt downgrade.

Financial markets voted no confidence in Latin America despite the sweeping reforms most of the region's countries had implemented in an attempt to meet the demands of international investors. In the past decade, most Latin governments have adopted what is called the "Washington Consensus": reforms backed by the IMF and the United

States Treasury Department that include lifting restrictions on trade and foreign investment, privatizing state enterprises, stabilizing local currencies, and clamping down on government spending to achieve balanced budgets.

The reforms have created a dramatic turnaround in Latin American economies, ending the state-dominated populist and protectionist regimes. Yet implementing the policy package that Latins call "neoliberalism" has been costly: millions have lost jobs because of privatization, public services including health care and education have been sharply reduced, and in many countries the number of people living below the poverty line has increased. Benefits have accrued to the reformed countries as trade and foreign investment have increased and sound finances have spurred growth. But, as the August rout proves, Latin America remains subject to recurrent crises.

POINTING TO AN ALTERNATIVE

Well before the weakness in Asia drove home the vulnerability of Latin American economies, a group of Latin intellectuals and left-leaning politicians had begun to debate an alternative program that would promise development for their countries. By November 1997, after 18 months of meetings, they had forged a consensus and launched a platform called the "Latin American Alternative" (*Alternativa Latinoamericana*). The group is spearheaded by Jorge Castañeda, a Mexican political scientist (and *Current History* contributing editor), and Roberto Mangabeira Unger, a Brazilian and professor at Harvard Law School. They have been joined in the debate by some two dozen Latin politicians, including two presidential candidates from Brazil and presidential hopefuls from Argentina, Chile, and

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Mexico, as well as former finance ministers, senators, governors, and mayors from throughout the region.

The alternative model endorsed by this group accepts the market economy, global economic integration, free trade, and privatization of state companies—all central tenets of the Washington Consensus. But the model proposes radical new policy directions to achieve sustained economic growth, link the poor to national and global economies, and encourage greater democratic political participation. "We can reform the market economy to tighten the link between savings and production and make money more complicit in the real economy," says Unger, who complains that the "financial casino" of stock markets and currency trading dissipates savings worldwide, and especially in emerging market countries.

A guiding principle of the alternative model is to combat the social and economic dualism that pervades life in Latin America. The region can claim the most inequitable income distribution in the world and rigid barriers to social mobility. The model would raise taxes to increase government funding for social services and education, which would improve the productive capacity of the workforce. Locally based credit institutions would be promoted to fund the upgrading and expansion of undercapitalized small businesses, which employ the majority of Latin Americans. Incentives for savings would be established to reduce the dependence of the region's emerging markets on volatile foreign capital inflows. Referendums and recall elections would be used to circumvent political impasses that blocked passage of reforms.

This effort to create a program for leftist politicians and generate an alternative to the neoliberal model is ambitious. Winning a hearing for the Latin group's vision and implementing its program will be uphill battles. "The basic objective is to establish in Latin America a movement of ideas, a current of opinion to get at economic orthodoxy and economic populism," says Unger.

Most of the politicians in the group predictably take a more optimistic and pragmatic view, believing they can win office and govern better with some of these ideas. They are also motivated by the need to build center-left political alliances strong enough to defeat the center-right elected regimes that predominate and then enact an alternative economic program. "The center-left is in a boom period" in Latin America, says Senator Carlos Ominami of Chile, a former economy minister. Others in the

group advocate the alternative model with all of its ideas, including some that may seem unrealistic. "If you ask me do we have to put forward maximum utopias, I say yes," says Graciela Fernández Meijide, a former human rights activist and now the likely presidential candidate for Argentina's center-left alliance. "You have to propose a lot to get what you get."

The group's goal of rolling back the Washington Consensus and ushering in a model based on productive investment and a democratized economy sounds like a pipe dream. But time and trouble may be on its side. "The present world financial crisis has strengthened the need for such a debate and ultimately strengthened the readiness to hear this message," argues Unger. Certainly, the Asian crisis puts the IMF's credibility to the test and may overturn the conventional wisdom favoring unrestricted movements of capital. For market watchers willing to open their minds to other doubts, here are the ideas that these Latin Americans propose.

BUILDING THE MODEL

Supporters of the Latin American Alternative aim to correct the errors of both neoliberalism and populism. Neoliberalism has failed in Latin America, they argue, because it has not achieved sustained economic growth and it condemns large parts of the population to social and economic misery. The social programs of neoliberalism are inadequately funded and cannot reduce inequities because they are combined with orthodox economic structures that reinforce the highly unequal distribution of income that typifies Latin economies. Populism, meanwhile, is "merely distributive" and has failed to spawn deep reforms of the productive structure, says Unger.

"Alternativa Latinoamericana" promises a democratized market economy that would bridge the gap between technologically advanced industries and undercapitalized, inefficient small and microbusinesses; it also promises a strong federal government with increased revenues that would support social and educational services to narrow the chasm separating the rich from the poor (who make up 40 percent of the population in many Latin countries).

A basic underpinning of the model is an increase in taxes and tax collection so that state revenues top 30 percent of gross domestic product. "In no country in the world has it been possible to generate solid social equilibrium with [government] spending levels below 30 percent of GDP," according to

Alternativa Latinoamericana. This poses an enormous challenge in Latin America, where tax collection averages about 12 percent of GDP and tax evasion is a national pastime. The increase in revenues would come from raising taxes on consumption, known as a value-added tax. At the outset, an increase in income taxes is not foreseen. The tax hike to all consumers, rich and poor alike, would be compensated for by social spending that would redistribute income and opportunities. In addition, the proceeds from the privatization of state companies would be used to pay off domestic public debt and reduce domestic interest rates to levels competitive with those in the industrialized nations.

To combat social inequities, state spending would guarantee equal access to quality education for all citizens and would provide meals and medical care to all children. Workers' salaries would be increased so that they made up a greater percentage of national income.

The model would attempt to reduce the predominance of what Unger dubs the "financial casino." The group proposes to adopt controls on short-term capital flows by imposing taxes or requiring reserve deposits. The controls would help stimulate domestic savings and create incentives to channel investment to productive uses. "Financial logic tends to impose itself over productive logic," the group's proposal notes. The group argues that speculative short-term capital flows threaten the sovereignty of states because international financial markets pressure governments to lift regulations and throw open their borders to stateless private capital. They have gained some powerful allies on this point recently. In late September, IMF officials indicated that the fund may encourage the use of controls on short-term volatile capital flows.

Alternativa Latinoamericana also proposes that savings be increased to exceed 30 percent of the national economy; this would be accomplished principally by creating private pension funds. To encourage the use of these savings for productive purposes, special investment funds would be set up, and incentives would be created for investing in undercapitalized small and medium-sized firms. The investment funds are meant to offer an alternative to conventional stock market and banking investments that fuel the financial sector but fail to create employment or goods and services for unskilled and poor workers. A key would be to make financial services, especially credit, available

to all citizens. The traditional financial system should expand its coverage through the formation of credit unions, savings and loans, microcredit lending groups, and other locally based finance agencies scattered throughout the countryside.

The model must attempt to overcome the separation between the productive niches Unger calls the "vanguard" and the "rear guard." The vanguard includes innovative, technologically sophisticated, internationally competitive industries; in most emerging markets they capture a huge share of profits but represent a small slice of employment and the production of goods and services consumed by the poor domestically. The rear guard includes the legions of unproductive, undercapitalized small and medium-sized firms and cottage industries that work with obsolete technology and are not linked to the global economy. In Latin America, most

employment is generated by firms in the rear guard, and typically the jobs lack social benefits for the workers.

Bridging the gulf between the vanguard and the rear guard would require a new type of linkage between government and private industry to allow flexible and decentralized coordination with small and medium-scale firms at a local level. The alternative model proposes to group small firms together in networks

to gain access to investment funds, public and private bank credits, and assistance programs. These relationships would create channels to transmit vanguard practices, especially permanent innovation, reduction of the layers of hierarchy among personnel, and the mixing of cooperation and competition, to the rear guard.

The model would make big business play by the rules of market competition instead of reaping benefits from government support and protection. Policy reform to level the playing field in Latin market economies would include reorienting government support programs toward small and medium-sized companies, advancing stiff antimonopoly laws, ensuring protection for minority shareholders, and eliminating nonvoting shares in companies. The principle of "free trade without dogma" would include adopting selective temporary tariffs to encourage long-term, high-risk investment and reduce the favoritism often shown to big business.

The left also argues that political institutions must be modified so that frequent change is easier. The model proposes giving presidents and congresses the power to call a new election for both

The group argues that speculative short-term capital flows threaten the sovereignty of states.

executive and legislative branches when reform is blocked. Presidents would be granted "fast-track" procedures to speed decisions on strategic issues.

DEMOCRACY: A KEY INGREDIENT

Deepening democracy in Latin America is a pillar of the model to bridge the region's social and economic divide. Honest elections and constant civic mobilization are but the first steps to this goal. Unger takes a dim view of recent constitutional changes in several Latin countries that allow for the reelection of the president. The reforms have given a second term to Carlos Menem in Argentina and Alberto Fujimori in Peru and returned Brazil's Fernando Henrique Cardoso to power in elections in October. "The development of the reelection system threatens to return Latin America to the era of civilian caudillos," or strongmen, says Unger.

Additional proposals aim to reduce the influence of money in politics through public financing of campaigns, disclosure of private contributions, and the expansion of free access to television for political parties and social movements. To hold governments accountable for their acts, instruments must be created that allow citizens and legislators to call bureaucrats to task. These instruments would include popularly initiated recall votes, referendums, congressional oversight of government agencies, independent accounting offices to combat corruption, and citizen selection and supervision of public works projects.

Democratization of information is also required in the vision of a strengthened society and a transparent government. Practical means must be found to inform constituents of their rights as citizens, as men and women, and as members of ethnic groups, and to encourage them to defend their rights. Private monopolies that control the policy and content of mass media, especially television, must be broken up by limiting the concentration of concessions or frequencies. Television cries out most urgently for this reform because across Latin America it is the leading source of news for most people. In Brazil, for example, 80 percent of adults never read newspapers. The power of Latin media magnates and the ongoing wave of privatizations of media-related industries such as telecommunications companies combine to create strong allegiances between the information industry and government, says Unger.

PUTTING THE PLAN TO THE POLITICAL TEST

While some elements of this model may seem far-fetched, more than a few are gaining currency

among economists and government and development officials. "What seemed fringe ideas two to three years ago are becoming more mainstream," Castañeda observes. In particular, creating controls to regulate flows of short-term capital seems like an idea whose time has come. To reduce the volatility that afflicts emerging markets, controls on short-term capital have been endorsed since the Asian crisis by prominent figures including billionaire hedge fund investor George Soros, World Bank chief economist Joseph Stiglitz, and Goldman Sachs managing director E. Gerald Corrigan. Stiglitz condemns free movement of capital, citing economic research that shows there is no relationship between unrestricted capital flows and economic growth.

Long a taboo in Latin America, tax reform designed to increase government revenues by raising taxes and broadening the tax base is being put before legislatures across the region. Latin governments, the World Bank, and regional development banks such as the Inter-American Development Bank are now taking a closer look at poverty. There is a growing consensus that attacking poverty requires broad social programs beyond the transfer payments and slim subsidies widespread today. Finally, Castañeda points out, the dangers of maintaining an overvalued currency and monetary instability are widely accepted in financial circles.

PROMISING RESULTS

The politicians in the group have led innovative programs with successful results that show how the model could work. In Brazil, Workers' Party leader Tarso Genro is a case in point. While serving as mayor of the southern city of Porto Alegre, he established a partnership between the municipal government and the private sector to finance a fund to make small loans to small-scale businesses. He created participatory budgeting by dividing the city into 16 districts, each with an elected council that set priorities on public works projects such as schools, community health clinics, and roads. Citizen groups managed the budget and supervised the construction of projects in their neighborhoods. The result: money was spent carefully and about one-third more projects than usual were completed. Genro also raised municipal revenues by 25 percent by taxing undeveloped urban land being held for speculation and placing a levy on urban services. At the end of his four-year term in 1997, he boasted a 75 percent approval rating.

Vicente Fox, the governor of Guanajuato state in central Mexico and presidential hopeful from the

conservative National Action Party, is promoting microlending. He used \$5 million from state funds and raised an equal amount from the private sector to create the initial capital for the nonprofit Banco Santa Fé de Guanajuato. Modeled after the Grameen Bank of Bangladesh, the bank grants microcredits of as little as \$100 to tiny enterprises such as pig-raising in a backyard stable and sidewalk food-stands. The bank has made many loans to working women who often are the mainstay of the family, since Guanajuato sends many migrant workers to the United States.

Also in Mexico, a recent referendum on national economic issues has strengthened the opposition mandate to hold the government accountable for federal spending. Opposition politicians have seized on a government bank bailout scheme—which would have cost taxpayers \$65 billion in public debt—to mobilize citizen demands for greater control over the budget. Andrés Manuel López Obrador, president of the left-wing Democratic Revolution Party (PRD), led the referendum, which drew more than 3 million votes nationwide on August 31. The PRD referendum marked the first time since the economic reforms began that the citizenry has been consulted on economic policy. More than 95 percent of those voting opposed the government's proposal to assume bad bank loans as public debt.

The referendum provided overwhelming support for PRD proposals to audit large corporate loans, which make up about half the bad debt; provide aid to small debtors; and restrict foreign investment in banks. Although government and banking officials discredited the referendum, saying it was skewed to favor PRD positions, it nevertheless strengthened the opposition mandate to demand that banks shoulder more of the burden of the bailout.

The mechanisms for combating neoliberalism and the possibilities of forming center-left alliances will vary with each country. But there is agreement that the Alternativa group provides a prized function as a forum for exchanging ideas and practical experiences to improve Latin American societies. "It can contribute to the formation of a bloc that is political, democratic, anti-neoliberal, and is occupying spaces in Latin America," Brazil's Genro said in a recent interview. This group is preparing to influence regional issues, in particular to set an agenda for labor and social issues in the negotiations of the Free Trade Area of the Americas, the

hemisphere-wide free trade area that is to be set up in the next seven years. The debate over center-left alliances has been maturing with the group's deliberations. "Our countries require great transformations [that] cannot be made without wide citizen backing and that require alliances, and that requires pluralism," said Gabriel Gaspar, a research fellow at Flacso, a research institution in Santiago, Chile.

It was not possible to build such an alliance for the October 4 presidential race in Brazil, the first of a wave of elections in Latin America between now and mid-2000. "That was not due to the impotence of the group, it was due to objective conditions of the Brazilian political process," says Genro. Brazil's Workers' Party backed its two-time presidential candidate, Luis Inácio "Lula" da Silva, because the traditional left within his party resisted an alliance with centrist Ciro Gomes and hoped to win congressional seats on Lula's coattails.

In other countries, however, the chances for center-left alliances are strong and the coalitions might defeat neoliberal regimes in coming elections. In El Salvador, the guerrilla force turned political party, the Farabundo Martí National Liberation Front, is seen as the front-runner in the March 1999 presidential race it will run in an alliance with a range of civic organizations. In Argentina, the Alianza, a political grouping made up of the Frepaso and Unión Cívica Radical parties, is a strong contender in the 1999 presidential race. In Chile, the ruling center-left coalition is expected to keep the presidency in December 1999 elections with front-runner candidate Ricardo Lagos, a moderate socialist, backed by the Christian Democrats. The Mexican election in July 2000 is too far off to call, but the Alternativa's meetings have provided a setting for dialogue between the two most likely opposition candidates, Mexico City Mayor Cuauhtémoc Cárdenas and Vicente Fox.

The model has yet to be adopted by Latin America's conventional leftist parties. However, it is gaining ground as left-wing and center politicians search for a program to offer constituents in the postcommunist era. For some leftist parties in Latin America, the model fuels splits that were already brewing by providing ideas for those who have accepted the inevitability of globalization. The aim of Alternativa Latinoamericana is to stimulate a process of gradual economic, political, and societal change to combat a destiny that the continent does not deserve. ■

"If you asked a typical art silk weaver in Surat about the importance of rapid turnaround, lean manufacturing, or outsourcing, he would probably have no idea what you were talking about. Nonetheless, these are central ingredients of local industrial success. It may be fair to say that the humble powerloom weaver of Surat is as far out on the cutting edge of modern capitalism as any MBA-toting venture capitalist."

India's Other Path: Disorganized Capitalism in Surat

GARRETT MENNING

In Surat, as in many other Indian cities, the main train station is a hub of activity. The station fronts Ring Road, which skirts the crowded urban core and carries much of this western Indian city's traffic. Like countless thoroughfares across India, it is noisy and clogged with a bewildering variety of people, animals, and vehicles throughout the day and much of the night. But it does not take a visitor long to see what sets Surat apart from other urban centers in India: the production of synthetic textiles known locally as "art silk."

The Surat textile market and the city's other major cloth emporia are located just south of the train station, and a great number of the people on Ring Road are traveling between the market area and the thousands of textile manufacturing units dotting the city. Workmen shoulder bolts of unprocessed gray cloth, men on bicycles carry spindles wound with brightly colored yarn, and what local people call "goods carriers"—everything from small motorized three-wheeled vehicles to large diesel trucks—transport items ranging from saris and dress materials to powerlooms, dyes, and spare parts for textile machinery. Adding to the confusion is a small army of laborers on their way to shifts in nearby weaving sheds and dyeing and printing houses, along with a stream of briefcase-toting businesspeople hurrying to their shops and offices.

A visitor quickly realizes that textiles are the lifeblood of Surat. A short walk in any direction from the train station will bring a newcomer within earshot of whirring powerlooms inside nearby weaving sheds. While many of the newer factories have sprung up in the industrial areas around the perimeter of the city, it is not uncommon to find powerlooms on the ground floors of homes in Surat's residential districts as well. Despite their modest appearance and the informal, apparently haphazard nature of their day-to-day operations, these firms constitute the backbone of a thriving industry. The weaving sheds lie at the heart of a vast, intricate, and highly decentralized network of middlemen and small, often family-run firms specializing in art silk production and distribution.

Surat is among the largest of a handful of rapidly growing centers of the decentralized powerloom industry in India, including Bhiwandi, Ichalkaranji, and Malegaon, all in the state of Maharashtra, just south of Surat. They have sprung up in recent decades to displace the older, centralized mill sector. On an even broader level, Surat serves as an example of a larger, worldwide trend toward what some scholars have come to call disorganized capitalism. Founded on flexible production and capital accumulation, disorganized capitalism has emerged as a reaction to the accelerating rate of change in communications, transportation, and productive technologies; the growing integration of the world economy; the proliferation of new consumer markets; and the weakening control of the nation-state over capitalist enterprises.¹

Observers frequently differ on the precise contours and dynamics of the contemporary capitalist system, but they agree that firms the world over

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¹See Scott Lash and John Urry, *The End of Organised Capitalism* (Cambridge: Polity Press, 1987), and Claus Offe, *Disorganized Capitalism: Contemporary Transformations of Work and Politics* (Cambridge, Mass.: MIT Press, 1985).

need to react quickly to emerging trends in the expanding global economy. The practice of identifying and modeling current directions of global capitalist growth has boomed along with the world economy itself in recent years. However, the fast-multiplying army of management gurus, popular authors, and scholars of "late capitalism" has paid little attention to India.

To make sense of emerging trends, these analysts usually look for their evidence in the most industrially advanced countries of North America and Europe; occasionally they glance at East and Southeast Asia (at least until the recent economic crisis). They have focused much of their attention on high-technology industries, such as software development, microchip manufacture, and automotive production.

But as white-collar occupations, light manufacturing, and service industries have become more common in the world's wealthiest nations, many industries that once flourished in the advanced economies have now shifted to less developed regions. The changing international division of industrial labor is reflected in the "flying geese" model, which posits that developing nations follow paths of growth similar to those of countries just ahead of them on the economic ladder. Since textiles are no longer among the most profitable economic sectors in the global economy, the Asian countries undergoing the most rapid economic development have moved into more capital- and skill-intensive sectors. Thus, South Korea and Taiwan were once major competitors in the textile industry as Japan began to concentrate on higher technology sectors. Now, as South Korea and Taiwan have moved into the production of automotive parts and electronics, competition in the textile industry has been left to India and other developing nations such as Indonesia, Thailand, and Vietnam.

Because of the major differences between the most advanced economies and those of poorer countries like India, analysts have overlooked many of the less evident but equally important similarities to be found in economic development worldwide. In fact, many of the same deep structures of disorganized capitalism that have emerged in the developed economies—lean manufacturing, subcontracting, and decentralized production—can also be observed in the less glamorous, low-tech industries in the third world, many of which are

also flourishing today. The art silk industry in Surat and in other Indian cities is a case in point. India's economy has lagged behind many of its faster developing Asian neighbors in recent decades, but the powerloom industry has been one sector that has outstripped expectations.

NOT SO DIFFERENT

Overly facile contrasts between the "first world" and the "third world" lie at the root of much of the scholarly neglect of disorganized capitalism in India and other less developed countries. The three-worlds classification inevitably leads us to view underdeveloped nations as a single group and to then contrast them with more advanced countries, which are also conceived as a relatively homogeneous group.

Yet superficial differences in the commercial environments and patterns of business organization found in developing countries hide underlying similarities with those in nations that industrialized earlier. For example, both industrialized and developing economies emphasize flexible systems of production that can respond efficiently to fast-changing niche markets at the lowest possible cost. In Surat, as in many other low-tech sectors of the world economy, the

very leanness that helps to make the local industry competitive also robs it of a certain glamour. The gritty, no-frills character of local powerloom production can easily lead a visitor coming from a major industrial country to doubt that Surat lies in any sense on the frontiers of modern capitalism. Recent efforts on the part of the municipal authorities to clean up and better organize the city notwithstanding, the rapid expansion of local industry has brought largely unplanned and uncontrolled growth in its wake, and much of the city appears unsanitary and overcrowded to the Western observer. The powerlooms themselves—small enough to fit in entrepreneurs' houses, often jury-rigged and decades-old—are not visually impressive. Nor is the observer likely to be impressed with the final product, chiefly fabrics such as rayon and polyester, of modest price and quality, that are destined primarily for lower and middle-class domestic markets.

Even if one ventures beyond the shabby storefronts and dreary factory exteriors to try to understand the commercial arrangements that undergird local industrial growth, there are few outward par-

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allels with the leading economic centers of Japan, Europe, or North America. The formality of business relationships among professionally trained managers and technicians and the prevalence of legal-bureaucratic controls and procedures that are found in many industrial settings in developed nations are largely absent in Surat. The city's merchants and manufacturers frequently conduct business on the basis of purely oral agreements, and they rely heavily on networks based on kin, caste, and religious ties, just as they have for centuries. Many entrepreneurs have little formal education, having learned about business and the technical aspects of cloth manufacture from family members or others in the same ethnic community.

If anything, a quick tour of Surat by a Western observer might reinforce the notion that India and other developing countries are following paths of growth broadly similar to those already taken by wealthier nations, repeating the same stages of industrialization that have occurred elsewhere. Frequently, the types of economic activity found in cities like Surat are assumed to be somehow less rational or efficient than those in so-called developed societies, which are, conversely, seen as the exclusive sources of dynamic capitalist innovation. According to this view, the innovations that take place in the world's wealthiest economies only gradually trickle down to societies in developing regions, where they eventually replace preexisting economic practices.

While models like that of the "flying geese" correctly highlight some of the common features of industrial growth shared by nations at similar stages of industrial development, single-track perspectives like these often ignore deep-seated sociocultural differences between societies that may have a major impact on their directions of economic change. It is also important to remember that the contours of the global capitalist playing field are constantly changing, making it difficult to compare the performance of contemporary industries with similar sectors at earlier points in time. New technologies, political conditions, and market forces create continuous change in every sector of today's global economy—from textiles to computer manufacturing.

Clearly, industrializing nations today are competing in a very different global milieu than were

the Western countries that industrialized during the colonial era. It is therefore unsurprising that non-Western countries have often followed paths of economic development distinct from those taken much earlier by European nations. To a lesser extent, it is also unreasonable to expect the textile industry in India, with its unique history of development, to follow the same specific patterns of growth that have already occurred in Taiwan or South Korea.

A HISTORY OF ITS OWN

Much of what is happening in Surat and other commercial regions in India makes more sense when viewed in light of South Asia's own history than by trying to draw overly specific parallels with historical patterns of industrialization elsewhere. Recent studies underline the enduring importance of complex indigenous forms of socioeconomic organization and highlight the myriad continuities in South Asian capitalist growth. For example, several strands of new research have pointed to the ongoing viability and adaptability of the family firm and networks based on caste and religious ties for the conduct of business in the subcontinent.²

A comparison between the historical development of Surat and Bombay casts light on larger patterns in the development of both centralized mill production and small-scale, decentralized textile manufacturing in India. Surat has been historically dominant in Indian Ocean commerce and functioned as an important textile center before the advent of factory production. The recent economic boom in Surat recalls the city's earlier glory during the sixteenth and seventeenth centuries. Then it was the leading port in the Indian Ocean trading system, where traders from Africa, the Middle East, Europe, and other parts of Asia met merchants from all over India. The British established their first factory in India in Surat in the early 1600s and called the city "the cradle of the British Empire in India." Its location in one of the subcontinent's greatest cotton-producing regions also made Surat a major center for the manufacture and marketing of hand-woven cotton cloth and other textiles.

By the middle of the eighteenth century, the British increasingly focused on Bombay as a center for political and industrial expansion. Surat fell into a supporting role. Big cotton mills in Bombay and other western Indian cities—bolstered by British investment and incorporating British know-how and managerial techniques—came to dominate textile manufacture, as mass production of cotton cloth displaced much of the manual weaving activ-

²See C. A. Bayly, *Rulers, Townsmen and Bazaars* (Cambridge: Cambridge University Press, 1983), and David Rudner, *Caste and Capitalism in Colonial India* (Berkeley, Calif.: University of California Press, 1994).

ity in Surat. While direct colonial activity in Surat waned, the British continued to use contacts with the city's merchants to gain access to indigenous credit networks and trade routes into India's interior. Therefore, during the colonial period, many indigenous forms of commercial organization in Surat were not only preserved but also adapted to new economic circumstances. Family firms and household-based enterprises remained the rule, and many types of caste-based commercial associations continued to function.

Much of the late-twentieth-century success of Surat's textile industry, which has come to eclipse Bombay's once great mills, has been founded on these traditional social structures. The informal, decentralized weaving sector has acquired a new vitality, this time stemming from the powerloom rather than the handloom. Artisans in Surat applied the expertise they had acquired using handlooms to powerloom manufacture, modifying the looms to weave the new types of synthetic yarn that became available after World War II. Yet observers outside India have tended to overlook or minimize the innovative character of the contemporary industry in the same way that they previously downplayed the scale and sophistication of local economic development. A brief look at the underlying dynamics of Surat's contemporary art silk business highlights the ways in which elements of the city's precolonial and colonial economy, social structure, and commercial culture have been successfully adapted to the challenges of the Indian textile market today.

A POST-FORDIST CITY

The contrast between the fluid, decentralized organization of Surat's powerloom sector and the more formal, highly centralized structure of the mill sector, typified by the cotton factories of Bombay, is both striking and instructive. Bombay's cotton mills are the biggest in India, but large textile factories also exist in other major Indian cities such as Ahmedabad and Calcutta. It is telling that most of the attention paid to textile production in India has focused on the mill sector, which has been organized according to traditional Western ideas of centralized planning.

The centralization of the mill sector is evident in the internal organization of Bombay's factories as well as in their relations with the state and large financial institutions. The formal work routines and the social relations of production inside the mills are reminiscent of the ideas of doyens of early organized

capitalism in the West, such as Henry Ford, pioneer of the assembly line, and Frederick Taylor, an early "efficiency expert" and student of "scientific management." Taylor, Ford, and their successors emphasized precise uniformity in manufacturing processes, all carried out in fixed sequences on-site in large plants.

Different phases of production are combined in a similar fashion in the mills of Bombay. Management is often professionalized, and weaving is done by armies of unionized labor, regimented in formal work routines and employed according to contracts that outline benefits and pay rates. The capitalization and regulation of the mill sector are also centralized. Enterprises frequently rely on government subsidies and financing from banks, big investment firms, and other formal institutions. Textiles have been among the most heavily regulated of India's industries, and the mills have been subjected to the strictest of government controls, in part because their large size makes them much easier for the state to regulate than smaller powerloom concerns.

INFORMAL ADVANTAGES

Unnoticed by many observers outside South Asia, the informal, decentralized sector epitomized by Surat has dramatically outpaced the now languishing mill sector in Indian textile manufacturing in recent years. As Surat has once again become a booming business center, its population has mushroomed in the last 50 years from fewer than 250,000 people to around 2 million today. The number of powerlooms operating in the city has also grown dramatically since the early decades of the century, jumping from only a handful to perhaps a quarter of a million by the mid-1990s. Ironically, at the same time that the art silk industry in Surat has expanded, cotton mills in Bombay and other cities have been bedeviled by continuous strikes and declining profitability. Many have closed their doors. These trends, in turn, reflect the larger, nationwide pattern in which the decentralized powerloom sector has competed successfully against and ultimately overtaken the more centralized mill sector.

In contrast to the Fordist style of organization in Bombay, the contemporary art silk industry in Surat is an extension of a preexisting local system of decentralized craft manufacturing and commercial enterprise. The family firm remains an important part of this system. By the mid-twentieth century, families that had been engaged in manual, household-based weaving began to buy powerlooms,

which were small and cheap enough to be installed within the home in place of hand- and footlooms. The weavers could apply many of the skills and techniques that they already possessed to mechanized cloth production, and the merchants to whom they sold the cloth could use preexisting commercial methods and networks for marketing and distributing the art silk. Of 60 firms surveyed in 1992 and 1993, 28 were operated by partners related to one another and 11 by individual proprietors.

Beyond the level of the family, the art silk business is further divided along ethnic lines. Caste and sectarian communities that have lived in Surat for centuries compete with communities of recent immigrants. Merchants and manufacturers still rely on members of their own kin groups and ethnic communities to raise capital, obtain necessary skills, get information about the industry and market trends, and protect themselves against the vagaries of the market and competition from other groups. Today, as in the past, it is unusual to find managers or owners within a firm who are not members of the same caste or sectarian community.

Production and distribution of cloth are dispersed among specialist firms and individual middlemen handling specific phases of manufacture and marketing. The raw material required for art silk production—synthetic yarn—is made in large, high-tech, capital-intensive spinning units located outside Surat, either elsewhere in India or abroad. The remainder of the process of art silk manufacture, from the time the yarn enters Surat through the distribution of processed cloth to wholesalers, is highly fragmented. Dealers generally sell large quantities of yarn on behalf of the big spinners, using networks of personal contacts in the city. The yarn is then purchased by a yarn merchant. He, in turn, sends it out to one or more twisting or texturizing units, which prepare the yarn for weaving. This arrangement, in which raw materials are supplied to a subcontractor who is paid on a piecework basis for his services after returning the finished product, is known as “job work” and the one who performs it as a “jobber.”

When he gets the processed yarn back from the jobber, the merchant then sells it to a weaving unit. These powerloom sheds are commonly run by second- or third-generation family firms, some of

which specialized in handloom weaving before switching over to art silk. Ironically, many of the powerlooms in Surat were originally used in Bombay's mills before being sold to entrepreneurs from Surat. Typically, weavers sell the unfinished cloth from their looms to a cloth merchant, often using a cloth broker. The merchant, like his counterpart trading in yarn, sends the art silk out for job work. The cloth is dyed and printed at a processing house according to the merchant's specifications so that he can sell it off, frequently using an *adatiya*, or commission agent, to an outside retailer or garment manufacturer.

The fragmented, informal nature of the industry in Surat offers art silk enterprises certain important advantages. A key one is flexibility. The business is highly competitive, and fluctuations in the cost of raw materials and in demand for various fashions lead to frequent cycles of boom and bust. Poorly run firms and those that do not react quickly to new trends will rapidly lose out to more agile competitors. The frequent shakeouts within the art silk industry, as entrepreneurs switch to more lucrative lines or simply go out of business, strengthen local industry and make it more competitive.

Individuals and small family firms also benefit by being able to skirt government regulations. There is a proverb in South Asia that advises “Never stand behind a horse or in front of an official,” and Surat's entrepreneurs are avid proponents of this philosophy. By keeping their enterprises small, weavers can avoid troublesome Factory Act regulations, which require businesses with 10 or more employees to maintain certain workplace standards and facilities. It is even harder for officials to keep track of the activities of individual brokers and commission agents, many of whom do not have permanent office addresses. A cloth broker I interviewed, for example, pointed proudly to his scooter and announced, “This is my office.” The armies of brokers and commission agents in the city make it easy for buyers and sellers to contact each other, thus efficiently matching supply with demand. Merchants and manufacturers are not contractually linked, so they can easily switch to new suppliers or purchasers in response to changes in the market or dissatisfaction with old business associates.

Collusion between businesspeople and officials is also an important part of the system. Businesses

Indigenous forms of social organization and commercial culture can, in the right circumstances, act as viable foundations for diverse economic systems.

gain freedom from state controls and supervision at the same time that officials and police benefit from lucrative bribes and kickbacks. Surat has such a reputation for corruption that inspectors and police stationed elsewhere often pay substantial bribes themselves in order to be reassigned there. The negative effects associated with corruption in Surat are reflected in poor urban infrastructure and the overall ineffectiveness of a local government in which honest and competent officials find few rewards.

Finally, Surat's entrepreneurs are able to avoid many of the labor costs facing their brethren in the centralized textile sector. The exploitation of artisan labor by merchants in the late colonial period has been replaced by an even harsher system in which businesspeople in Surat connive with government officials to get around regulations that guarantee benefits and minimum wages and require employers to ensure decent working conditions. The prevalence of personalized networks among people of similar caste groups and places of origin, together with patron-client relationships tying laborers to particular employers, makes it difficult for workers to form unions or organize themselves beyond the narrow boundaries of kinship and ethnicity. Entrepreneurs benefit from lower labor costs and a ready supply of compliant workers, but the laborers themselves obviously suffer compared with their counterparts in the mill sector.

While the informal nature of commercial dealings in Surat may make it easier for businesspeople to bypass government regulations, avoid taxes, and take advantage of cheap labor, it also makes it difficult for merchants and manufacturers to act dishonestly with each other. Although businesspeople may alternate among different associates as circumstances demand, relationships are typically long term and highly personalized. Trust is built up gradually over an extended series of face-to-face dealings. A reputation for reliability, honesty, and competence in one's community is key to commercial success. A person who becomes known as a cheat or a fraud will quickly be cut out of essential business networks and will find himself unable to get loans or even to arrange a respectable marriage for his children, thus hurting the long-term prospects for the family firm.

Although they rely on the strengths of traditional forms of commercial organization, businesspeople in Surat have quickly taken advantage of new technologies and ways of doing business. Some keep in regular touch with relatives and fellow caste members who have migrated to other countries and can

provide information about international business trends. In recent years, many of Surat's more affluent businesspeople have begun to travel abroad themselves to learn about foreign markets and manufacturing methods firsthand. They bring back knowledge about new types of textile machinery, dyes, and fibers that can be used quickly to make manufacturing more efficient and to produce new types of cloth.

Thus, in many respects, the small, informal textile enterprises in Surat may be more efficient than their larger counterparts in Bombay. While composite firms combining several manufacturing steps under one roof may benefit by cutting out middlemen and having larger capital reserves to fall back on during periods of recession, they suffer from slower response times and higher overall costs. Partly because the labor force in big factories can more easily strike and unionize, mills in Bombay must pay their laborers roughly three times as much as textile workers in Surat. More formalized accounting systems and more contractual relationships with labor also make large firms much more vulnerable to government taxes and regulations. Finally, vertical integration—in which different phases of production are carried out by a single concern—makes it difficult for big firms to quickly reorganize production, or to eliminate inefficient branches.

MORE THAN ONE PATH

The success of disorganized capitalism as practiced in Surat amply demonstrates several central points. It shows that a decentralized economy can be more competitive and efficient in certain types of production than more centrally organized manufacturing systems, such as the mill sector in cities like Bombay. It also demonstrates that there is no hard and fast path to success in contemporary business, and that indigenous forms of social organization and commercial culture can, in the right circumstances, act as viable foundations for diverse economic systems. Indeed, under certain economic conditions, small enterprises and informal, highly personalized ties based on kinship and ethnicity may be more rational as a basis for business practice than factory production according to formal routines and bureaucratic principles associated with mass production and professionalized management.

The same characteristics found in Surat's art silk industry have been noted in different contexts by other analysts of the global economy. The central advantages of disorganized capitalism are linked to

its adaptability. Observers have noted the increasing importance of flexible manufacturing and marketing techniques, which allow firms to take advantage of the opportunities opened up by the accelerating global flow of people, ideas, capital, and commodities. As in Surat, many small, flexible enterprises elsewhere are founded on informal kin and ethnic networks.

An examination of Surat's art silk industry forces us to reconsider much of the received wisdom regarding the roles of ethnicity and class and the place of the informal economy in capitalist development. That community identities in Surat continue to overshadow forms of social organization based on class and legal-bureaucratic or civic ties should encourage us to reexamine assumptions about the evolution of modern societies. Clearly, social organization based on class and legal-bureaucratic principles is not an inevitable outcome of capitalist development. In the same way, the informal economy cannot necessarily be viewed as existing alongside, and in a subordinate position to, the formal economy. In Surat, the formal and informal aspects of the economy are inextricably linked, and of the two, the informal dominates.

RETHINKING DEVELOPMENT

Finally and perhaps most important, the blossoming of the art silk industry in Surat forces us to rethink models of development that tend to assume that the world's wealthiest economies necessarily set the pace and produce the leading trends in capitalist development. Instead, certain common, underlying patterns of economic organization are emerging simultaneously in industrializing countries like India as well as in those economies that have already achieved high levels of industrialization. Surat is by no means a center of high technology, and the profitability of textiles is hardly comparable to that of the computer industry, but in many respects the local weaving industry is repre-

sentative of recent trends in the development of the global capitalist system. If you asked a typical art silk weaver in Surat about the importance of rapid turnaround, lean manufacturing, or outsourcing, he would probably have no idea what you were talking about. Nonetheless, these are central ingredients found in Surat's local industrial success. It may be fair to say that the humble powerloom weaver of Surat is as far out on the cutting edge of modern capitalism as any MBA-toting venture capitalist.

Francis Fukuyama, in his 1995 book *Trust: The Social Virtues and the Creation of Prosperity*, has argued convincingly that familistic societies such as China and South Korea have difficulty supporting the development of large-scale, centralized types of businesses without significant state intervention. India may also be counted in this category. But is state intervention to prop up otherwise unproductive large-scale business concerns necessarily desirable? With its faltering moves toward liberalization and away from centralized controls, the Indian government has shown a dawning awareness that heavy state interference in the activities of the private sector is not conducive to rapid economic growth.

While these trends may create further problems for the big mills, the centralized sector's loss may be the powerloom sector's gain. If they can overcome the problems of widespread corruption, poor pay and working conditions for the urban labor force, and decaying local infrastructure, cities like Surat may prosper. This will be a difficult task, given the heavy reliance of textile entrepreneurs on a large, flexible supply of cheap labor and the inherent difficulties of taxing and controlling small businesses without sapping their dynamism or even regulating them out of existence. If India is to enter the economic fast track, its best hope may lie with the brand of disorganized capitalism flourishing in Surat rather than with the type of centralized enterprises epitomized by the ailing mills of Bombay. ■

BOOK REVIEWS

ON THE GLOBAL ECONOMY

Global Public Policy:

Governing without Government?

By Wolfgang H. Reinicke. Washington, D.C.:

Brookings Institution Press, 1998. 307 pp., \$42.95, cloth; \$18.95, paper.

The global financial crisis has prompted calls for a new international regime to regulate global capital. Much of the thinking has centered on a narrow revision of existing structures such as the International Monetary Fund. Wolfgang Reinicke offers a different approach.

Although his book appeared before the current panic gripped policymakers, his proposal—a global public policy network made up of public, private, nongovernmental, and international organizations—touches on many of the concerns about globalization that have arisen in the last few months. It is, however, a proposal that is freighted with risks, the most important of which centers on the ceding of public regulatory oversight to private regulatory bodies.

Reinicke begins by noting that globalization, which “has been characterized as an essentially economic phenomenon[,] takes place in a social, political, legal, and cultural setting—national and international—that has the capacity to slow and even reverse global economic trends.” This capacity shows itself in the form of what Reinicke calls “defensive intervention” and “offensive intervention” by national governments. Defensive intervention—the creation of barriers such as capital controls and tariffs—and offensive intervention—lowering taxes or liberalizing capital accounts as part of a national competitiveness strategy—are both found to be deficient solutions to the problems of globalization (since globalization has been defined by Reinicke as primarily a microeconomic, not a macroeconomic, phenomenon); indeed, Reinicke argues that they exacerbate the problems.

The deficiencies of these two strategies, and the growing erosion of internal state authority over global corporate activities, mean that states cannot fully control the actions of corporations. The solution is to take (some) governance out of the hands of the nation-state and place (some) of its authority in the hands of international institutions and

other nonstate actors: “businesses and their associations, labor groups, nongovernmental and non-profit organizations, consumer groups, foundations, and other interested parties.” This global public policy network would be charged with formulating and implementing policy in the area of “soft” international law, which Reinicke defines as “legally non-binding international instruments.”

The risk in such an approach is apparent, and to be fair, Reinicke is quite aware of it. He does not, however, fully investigate the implications of such a move, which seems to create an even larger “democracy trap,” or democratic deficit, than that which it hopes to prevent. Moreover, it is an unnecessary move; as other critics have pointed out, eroding state authority is best dealt with by bolstering that authority internally, not by ceding it to the presumably ineluctable forces of globalization.

W. W. F.

The Global Trap: Globalization and the Assault on Democracy and Prosperity

By Hans-Peter Martin and Harald Schumann. New York: St. Martin's Press, 1998. 269 pp., \$55, cloth; \$19.95, paper.

Two staff members from the German weekly *Der Spiegel* detail how globalization privileges the market over the state. The authors argue that government's constant deferral to the market can lead only to the delegitimization and disintegration of state power: “Globalization turns out to be a trap for democracy itself.” This is a charge that is not without merit, and in the hands of a capable theorist such as Susan Strange it is a provocative thesis. Here it is a foundation on which is heaped a large bundle of anecdote, reporting, and unexamined charges, all conveyed in a tone that is sometimes more breathless exposé than hard-hitting analysis. The paperback price is extortionate.

W. W. F.

The Myth of the Global Corporation

By Paul N. Doremus, William W. Keller, Louis W. Pauly, and Simon Reich. Princeton, N.J.: Princeton University Press, 1998. 193 pp., \$29.95.

The popular image of the footloose, anational corporation, which *The Global Trap* incessantly promotes and which forms the centerpiece of *Global*

Public Policy, is here put to the test and found to be more apparent than real. Corporations may be multinational, operating across borders and building products from myriad international sources, but they are, in structure, finance, and innovation techniques, still very much creatures of their parent countries. The authors focus on American, German, and Japanese corporations and show that they maintain distinctive national styles. They conclude that a truly anational corporation is a myth, one that American businesspeople, rather than their German and Japanese counterparts, are more likely to believe in and promote. The thrust of the book's argument may be found in an article by two of the authors, William Keller and Louis Pauly, in the November 1997 issue of *Current History* on the global economy.

W. W. F.

A Stream of Windows: Unsettling Reflections on Trade, Immigration, and Democracy
By Jagdish Bhagwati. Cambridge, Mass.: MIT Press, 1998. 531 pp., \$30.

Jagdish Bhagwati is a rarity: an academic economist who can communicate the abstract,

sometimes counterintuitive thought of his profession to a larger audience. Moreover, his writing is executed with wit and flair, and is marked by a fundamental decency in a field filled with verbal thuggishness and intellectual preening. This collection of his writings over the last ten years includes sustained essays, occasional pieces, book reviews, and, in what would have been a mistake for a lesser writer, letters to the editor on selected topics. The case for free trade is made (and remade), as is the case against Clinton administration trade policy toward Japan and that for liberalized immigration.

W. W. F.

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THE MONTH IN REVIEW

September 1998

INTERNATIONAL

International War Crimes Tribunal for Rwanda

Sept. 2—In Arusha, Tanzania, the tribunal finds Jean-Paul Akayesu, the former mayor of the town of Taba, in central Rwanda, guilty of genocide, the court also defines for the 1st time rape as an act of genocide, making it a violation of the 1948 UN Genocide Convention, Akayesu, who now faces life in prison, had been charged with organizing murders, condoning mass rape, and ordering the killing of children; the tribunal was set up in November 1994 to prosecute Rwandan officials for the 1994 genocide that killed over 500,000 Tutsis and moderate Hutus; Rwandan courts independent of the tribunal have, since the genocide, tried at least 330 people, sentenced at least 116 to death, and executed 22 convicted of participating in massacres

Sept. 4—The tribunal sentences former Rwandan Prime Minister Jean Kambanda to life in prison for his part in the 1994 genocide; Kambanda was prime minister for 3 months during the genocide, and as the chairman of a council of ministers, plotted and carried out massacres of Tutsis across the country.

Middle East Peace Process

Sept. 28—In Washington, Israeli Prime Minister Benjamin Netanyahu and Palestinian Authority (PA) President Yasser Arafat meet with US President Bill Clinton and tentatively agree to a plan for Israeli troop withdrawal from 13% of the West Bank, the agreement would give the PA territorial control of 40% of the West Bank and approximately 98% of the Palestinian population that lives in the West Bank; talks are to be reconvened in October.

Southeastern European Defense Ministerial

Sept. 26—Meeting in Skopje, Macedonia, the defense ministers of Italy, Greece, Turkey, Macedonia, Albania, Romania, and Bulgaria agree to form a multinational military force of 3,000 to 4,000 troops to be used for peacekeeping or aid missions in the Balkans.

AFGHANISTAN

Sept. 2—Iran begins a planned 3 days of military maneuvers on its border with Afghanistan; the maneuvers are believed to be in response to the detention of 47 Iranians by Afghanistan's ruling fundamentalist Islamic Taliban.

Sept. 3—The Taliban free 5 Iranians held since last month but say that at least 10 missing Iranian diplomats may be dead; Amnesty International says that 10 Iranian diplomats and 1 reporter were reportedly killed in early August when Taliban guards stormed the Iranian consulate in Mazar-i-Sharif during the Taliban's capture of the northern Afghan city in late August.

Sept. 15—In New York, the Taliban's deputy representative to the UN, Noorullah Zadran, asks the UN to mediate between Afghanistan and Iran; recent statements by Iranian leaders about the now confirmed August 8 killing of at least 8 Iranian diplomats and 1 journalist in Mazar-i-Sharif have included threats of military action; Alvaro de Soto, the UN assistant secretary general for political affairs, says that the UN will not intervene.

Sept. 19—The Taliban release 5 Iranians and acknowledge holding at least 45 others.

Sept. 20—A spokesman for the Taliban tells the independent Afghan Islamic Press agency that as many as 180 people were killed or wounded when opposition forces loyal to Ahmad Shah Masud fired at least 8 Russian-made rockets into Kabul today; Masud and Abdul Rashid Doestam have led coalition forces in the fight against the Taliban takeover since 1996

Sept. 30—Iran begins more military exercises on its border with Afghanistan, with approximately 200,000 troops participating; the Taliban say they have stationed 20,000 troops on the border in response to the exercises

ALBANIA

Sept. 12—Azem Hajdari, a member of the opposition Democratic Party, and his bodyguard are shot and killed in front of the party's headquarters in Tirana; no group claims responsibility.

Sept. 13—Protesters blaming Hajdari's death on the governing Socialist Party set fire to the main government building in Tirana, sending Prime Minister Fatos Nano and his cabinet fleeing, 1 protester is killed and 4 guards are wounded in an exchange of gunfire, today Democratic Party leader and former President Sali Berisha warned Nano to resign or face "catastrophic consequences."

Sept. 14—In a day of unrest in Tirana, antigovernment protesters seize the parliament building, a government television station, and at least 4 tanks, government forces later recapture the buildings

Sept. 15—Some 3,000 Berisha supporters defy a government ban and march peacefully in Tirana, Nano accuses Berisha of attempting a coup.

Sept. 28—Nano resigns as prime minister, saying he had been unable to put together the cabinet he wanted; Socialist leaders say Pandeli Majko, the party general secretary, will be the candidate for prime minister.

ALGERIA

Sept. 11—On national television, President Liamine Zeroual announces that he will step down and calls for early elections to be held before March 1999; Zeroual was elected in 1995 for a 5-year term after the military appointed him head of state in 1994; the country's economic problems, Islamic violence, and Zeroual's reportedly failing health are the apparent reasons for his decision

ANGOLA

Sept. 1—The New York Times reports that the government of President José Eduardo dos Santos announced 2 days ago that it has put the country's government of national unity "on hold" and suspended all representatives of the former guerrilla group, the National Union for the Total Independence of Angola (UNITA), from parliament; the government cited UNITA's failure to adhere to peace treaty obligations; the government of national unity was established by the 1994 UN-brokered Lusaka accord between the government and UNITA.

Sept. 14—In letters to UN Secretary General Kofi Annan and the UN Security Council, dos Santos says that he will no longer work with longtime UNITA leader Jonas Savimbi because Savimbi has not participated in the 4-year-old peace effort, instead, dos Santos says, he will negotiate with a group of political and military leaders who broke away from Savimbi and formed the UNITA Renovation Committee (URC); in

Mauritius today, leaders of 14 southern African nations agreed at a meeting of the Southern African Development Community to consider Savimbi a war criminal and to recognize and support the URC.

BOSNIA AND HERZEGOVINA

Sept. 25—The Organization for Security and Cooperation in Europe releases unofficial results of the elections it supervised in Bosnia on September 14; the hard-line nationalist Nikola Poplasen, who opposes the 1995 Dayton peace accords, defeated the pro-Dayton incumbent, Biljana Plavsic, for the presidency of the Serb half of Bosnia; in the race for the Serb seat in Bosnia's 3-member national presidency, the moderate Zvrko Radisic of the Serb Socialist Party defeated the Serbian Democratic Party's Momcilo Krajisnik, the incumbent and an associate of wartime Bosnian Serb leader and war crimes suspect Radovan Karadzic; Alija Izetbegovic retained the Muslim seat, although his nationalist Party of Democratic Action lost ground to more moderate parties, Ante Jelavic, the leader of Bosnia's branch of the nationalist Croatian Democratic Union, the governing party in Croatia, won the Croat seat in the presidency, unseating the more moderate Kresimir Zubak, who broke from the party shortly before the election.

BURMA

Sept. 2—In the largest demonstrations in Burma in almost 2 years, some 4,000 students protest at 2 campuses in Rangoon against the ruling military junta.

Sept. 8—Leaders of the National League for Democracy (NLD), Burma's main opposition party, say the ruling junta has arrested 220 party members in a crackdown that began 2 days ago, last month the NLD announced that it would convene the parliament that was elected in 1990 but prevented by the military from sitting; 63 of the 220 arrested are members of that parliament.

Sept. 17—Ten NLD politicians, led by Nobel Peace Prize winner Daw Aung San Suu Kyi, declare that they will act as Burma's legitimate parliament and that all laws and decrees issued by the ruling military junta are null and void, in its 1st act, the would-be parliament calls for the release of all political prisoners.

CAMBODIA

Sept. 7—Unidentified attackers throw 3 grenades at the Phnom Penh home of Hun Sen, the head of Cambodia's government; Hun Sen then orders the arrest of his political opponents, notably Sam Rainsy, whose opposition Sam Rainsy Party finished 3d in the July 26 presidential elections and who has been leading a round-the-clock protest in Phnom Penh against alleged electoral fraud by Hun Sen's Cambodian People's Party (CPP); Hun Sen later backs away from the arrest order under international pressure; the CPP won 64 of 122 parliamentary seats in the election, but has been unable to form a government because a 2/3 majority is needed.

Sept. 8—Army troops tear down Rainsy's 2-week-old protest campsite and clash with stone-throwing protesters, injuring an unknown number; Rainsy remains for a 2d day under UN protection at a Phnom Penh hotel.

The New York Times reports that mobs have killed several Vietnamese residents of Cambodia in the past few days; Rainsy apparently helped to inflame anti-Vietnamese sentiment in speeches during his protest; Hun Sen was first installed in power in 1985 by a Vietnamese occupation army.

Sept. 9—Security forces clash for a 3d day with antigovernment protesters in Phnom Penh, human rights workers say a Buddhist monk has been killed in the violence.

Sept. 10—In an apparently spontaneous demonstration, some 10,000 people join a parade in Phnom Penh led by students

and monks in support of peace, democracy, and Hun Sen's removal from power, earlier today, police attacked demonstrators near the US embassy, shooting and critically wounding 1 person.

Sept. 11—Pro-government thugs beat and shoot opposition demonstrators in Phnom Penh, killing 1.

The New York Times reports that security forces have begun beating and arresting Buddhist monks in a crackdown that has enraged the public; some monks have joined recent antigovernment protests.

Sept. 22—Hun Sen, Rainsy, and Prince Norodom Ranariddh, the former co-prime minister whose Funcinpec party finished 2d in the July election, meet for the 1st time since the election and agree to hold talks on forming a government, and also to allow parliament to convene in 2 days.

Sept. 24—An anti-tank rocket fired at Hun Sen's motorcade in an apparent assassination attempt in the northern town of Slem Reap hits a house, killing 4 people; there is no immediate claim of responsibility.

CHINA

Sept. 6—UN High Commissioner for Human Rights Mary Robinson arrives in China for a 10-day visit; dissidents have used the occasion to press their demands for greater political freedom.

Sept. 9—Security agents detain Chu Hailan, the wife of imprisoned labor rights advocate Liu Nianchun, for 8 hours; Chu had said she wanted to ask Robinson to press for Liu's release.

Sept. 12—Security agents arrest Shi Binhai, a newspaper editor and coeditor of a recently published book on political reform in China.

Sept. 15—In Washington, General Zhang Wannian, China's military chief, and US Defense Secretary William Cohen agree to undertake modest joint military exercises and exchanges next year, and to share information on environmental problems caused by the 2 countries' armed forces.

Sept. 17—Ren Wanding, a dissident who says he and several others had planned to attempt to register a would-be opposition party, the China Democracy Party, in Beijing tomorrow, is detained for questioning and then released, his colleague Ma Shaohua was detained yesterday; Yao Zhenxian, a dissident with similar plans in Shanghai, was also detained today.

CONGO

Sept. 7—Tutsi-led rebels in the city of Goma say that their forces shot down a government-allied Zimbabwean fighter jet in western Congo 2 days ago.

President Laurent Kabila, whose government has been fighting the rebels for the past 2 months, attends a summit meeting in Durban, South Africa, that includes the presidents of South Africa, Zimbabwe, Angola, Zambia, Uganda, and Rwanda and a delegation representing Congo's rebels.

Sept. 8—The summit meeting ends with a joint statement endorsing peace as an ultimate goal in Congo but no agreements and no cease-fire accord for the country.

GERMANY

Sept. 20—German officials say they are preparing to extradite to the US Mamdu Mahmud Salim, a Sudanese man arrested in Munich 4 days ago, US officials believe Salim is a close associate of Osama bin Laden, the exiled Saudi dissident who is suspected of being behind the bombings of US embassies in Kenya and Tanzania last month.

Sept. 23—The electronics company Siemens announces that it will create a \$12 million fund to compensate former slave

laborers who worked for the company under Nazi rule during World War II; earlier this month the automobile company Volkswagen announced a \$12 million fund of its own for the same purpose

Sept. 27—In national elections today, the opposition Social Democrats defeat the governing coalition led by the Christian Democrats, by 40.9% of the vote to 35.2%; the Greens, with 6.7% of the vote, are likely coalition partners for the Social Democrats; Gerhard Schröder will replace Helmut Kohl as chancellor, in conceding defeat today, Kohl, who served an unprecedented 16 years, said he would resign as the Christian Democrats' leader.

INDIA

Sept. 24—Speaking to the UN General Assembly in New York, Prime Minister Atal Bihari Vajpayee says India is prepared to sign the Comprehensive Test Ban Treaty (CTBT) by next September, when the treaty is scheduled to go into force if all 44 countries with nuclear reactors have ratified it; Vajpayee says India's signing of the treaty will be contingent on talks to lift sanctions imposed on India after it exploded several nuclear devices in May; yesterday Pakistan, which conducted tests in May in response to India's, pledged to sign the CTBT if sanctions on it are lifted

INDONESIA

Sept. 1—Soldiers fire into an unruly crowd in Lhokseumauwe, in Aceh province, killing 2 people and wounding 10, the soldiers were among several thousand troops sent to the city today to quell riots against ethnic Chinese shopowners, the deployment reverses a withdrawal of troops from Aceh that had been under way.

Minister of Cooperatives Adi Sasono accuses private traders of hoarding stocks of rice to drive up the price, which is more than double the government's target price, food riots have broken out recently in eastern Java, and tensions have risen elsewhere, a government program to distribute subsidized rice to poor people has been unable to keep up with the increase in the numbers of poor; according to a recent International Labor Organization report, 95.8 million Indonesians—48% of the population—will be living below the poverty line by the end of the year, and the number could increase to 140 million next year.

Sept. 2—The National Commission on Human Rights issues a report accusing the military of carrying out a campaign of terror in Aceh since 1989, when then-President Suharto sent troops to the province to put down a separatist rebellion; the report charges that the military engaged in summary executions, torture, rape, and other crimes, killing more than 750 people in Aceh over the past 9 years.

Sept. 7—More than 1,000 students rally at the parliament building in Jakarta to demand the ouster of President B. J. Habibie

Sept. 8—Security forces forcibly evict the 300 or so students remaining at the parliament building in an early-morning raid, at least 7 students are wounded

IRAN

Sept. 5—President Mohammad Khatami orders a crackdown on Islamic militant groups in response to an assault 2 days ago on 2 political allies of Khatami; the 2 men were attacked by approximately 80 men during a march in Teheran honoring Iranian soldiers who died in the 1980–1988 war with Iraq.

Sept. 13—Gunmen open fire on Mohsen Rafiqdoust, the head of the Foundation of the Deprived and War Disabled; Rafiqdoust is a conservative member of the Iranian political establishment and a close ally of ultra-Islamist supreme leader Ayatollah Ali Khamenei; there is no immediate claim of responsibility.

Sept. 27—Foreign Ministry spokesman Mahmoud Mohammadi says that the fatwa, or death edict, threatening the life of British author Salman Rushdie for his novel *The Satanic Verses*, which Iran has officially deemed offensive to Islam, cannot be revoked, Britain reinstated full diplomatic relations with Iran 3 days ago after Foreign Minister Kamal Kharrazi said Iran had no intention of taking Rushdie's life; the late Iranian leader Ayatollah Ruhollah Khomeini imposed the fatwa on Rushdie in 1989

IRAQ

Sept. 9—The UN Security Council votes unanimously to maintain sanctions on Iraq until President Saddam Hussein resumes cooperation with UN weapons inspectors, UN sanctions on Iraq have been in place since the 1991 Gulf War and are to be lifted when UN weapons inspectors declare the country free of all weapons of mass destruction.

ISRAEL

Sept. 10—The Israeli army seals off the West Bank and Gaza Strip and bars Palestinians from entering Israel because of warnings of terrorist attacks; earlier today, Israeli troops killed 2 Palestinians in Hebron, identifying them only as "terrorists"; yesterday, a Palestinian woman died from bullet wounds received 6 days ago, Israeli security forces say she was shot "by mistake."

Sept. 11—At a rally in Gaza City, members of the Islamic militant group Hamas vow revenge on Israel for yesterday's killing of 2 Palestinians, now identified as key Hamas operatives, the 2 brothers, Imad and Adel Awadallah, were long wanted by both Israeli and Palestinian officials.

Sept. 27—Israeli riot police clash with Arab Israelis in the West Bank and Gaza, wounding scores with rubber bullets and dispersing them with tear gas; tensions have been high since Israeli police stormed tents set up 3 weeks ago on olive groves by Arab Israelis in the town of Umm Al-Fahm in protest of the Israeli army's plan to confiscate the land for use as a firing range.

Sept. 29—Unrest over army confiscations of land spreads to Nazareth, Israel's largest Arab Israeli city; protesters throw stones and bottles at the local police after security forces raid 2 homes belonging to members of the Arab Democratic Front Party.

Sept. 30—In Hebron, 13 Israeli soldiers and 11 Palestinian bystanders are wounded when a Palestinian throws grenades at an Israeli patrol post; no arrests are made

JAPAN

Sept. 1—The government suspends aid to North Korea and postpones planned talks on normalizing relations between the 2 countries, the actions come in response to North Korea's test-firing of a new medium-range missile across Japan yesterday.

Sept. 18—The governing Liberal Democratic Party reaches agreement with opposition parties on a series of measures to rescue the country's failing bank system and spur an economic recovery; the parties agreed, among other things, to curtail the finance ministry's power to set financial policy and to temporarily nationalize the reeling Long-Term Credit Bank of Japan, whose \$186 billion in assets make it one of the largest banks in the country.

KOREA, NORTH

Sept. 4—The government says it launched a satellite, not a missile, when it fired a rocket over Japan on August 31, it says the satellite "is now transmitting the melody of the immortal revolutionary hymns, 'Song of General Kim Il Sung' and 'Song of General Kim Jong Il'."

Sept. 5—Kim Jong Il formally assumes the title of "Great Leader" and the chairmanship of an expanded National Defense Commission; Kim, the eldest son of North Korea's founder, the late "Great Leader" Kim Il Sung, is the 1st person ever to inherit the leadership of a Communist country through a family dynasty; Kim has been North Korea's de facto leader since his father's death in 1994.

Sept. 14—US officials say they now believe the North Korean rocket launch on August 31 was a failed attempt to put a small satellite into orbit and not a military test; however, the officials say the rocket was more powerful than originally thought, having 3 stages rather than 2 and using solid fuel in the last stage.

Sept. 30—The Paris-based group Doctors Without Borders announces it is withdrawing from North Korea to protest the government's diversion of food and medicine and its refusal to allow aid groups to operate freely in the country, which has for months been facing famine conditions.

LESOTHO

Sept. 15—In Maseru, the capital, supporters of the opposition Basotho National Party demand that King Lethie's government release a delayed report about allegations of vote-rigging by the ruling government party, the Lesotho Congress for Democracy (LCD), in elections held in May; in the last 6 weeks, hundreds of demonstrators have held 24-hour protests across the kingdom demanding that the government step down, a team of electoral experts from Botswana and Zimbabwe, headed by a South African judge, has investigated vote-rigging allegations since the elections, but the government has refused to make the team's findings public, the LCD won 79 of 80 districts in the vote.

Sept. 22—South African troops and Lesotho guerrillas clash in the kingdom, killing as many as 30 people, including perhaps 12 South Africans; South Africa's intervention today is under the auspices of the 14-nation Southern African Development Community (SADC) and is intended to end political turbulence that has paralyzed Lesotho's government.

LIBERIA

Sept. 22—The *New York Times* reports that Roosevelt Johnson, the head of a political faction opposed to President Charles Taylor, took refuge from government troops 2 days ago in the US embassy in Monrovia, the capital; the crisis began on September 18 when government forces stormed Johnson's home and attempted to arrest him, touching off an exchange of gun, rocket, and mortar fire in the capital with forces loyal to Johnson that left at least 47 people dead.

Sept. 25—The US embassy airlifts Johnson to a secret destination; the government makes no effort to block the evacuation.

LIBYA

Sept. 5—Presidents Ibrahim Maïnassara of Niger, Idriss Deby of Chad, Alpha Konaré of Mali, and Omar al-Bashir of Sudan arrive at the Tripoli airport to attend the 29th anniversary celebration of Libyan leader Muammar Qaddafi's coup, the leaders' arrival is in defiance of a UN embargo on international flights to and from the country that has been in place for 6 years because of Libya's refusal to extradite 2 Libyan suspects in the 1988 bombing of a Pan Am jet over Lockerbie, Scotland, that killed 270 people, in June the Organization of African Unity agreed not to honor the embargo beginning September 1.

MALAYSIA

Sept. 1—Prime Minister Mahathir Mohamad announces wide-ranging foreign exchange controls that effectively make

Malaysia's currency, the ringgit, nonconvertible; over the past year, the ringgit has lost 40% of its value against the dollar and the stock market has fallen 75%.

Sept. 2—Mahathir dismisses Deputy Prime Minister and Finance Minister Anwar Ibrahim; in recent months Anwar, long seen as Mahathir's heir apparent, had repeatedly clashed with the prime minister over the latter's free-spending economic policies.

Sept. 18—At a rally of tens of thousands of supporters in Kuala Lumpur, Anwar accuses Mahathir of waging a smear campaign against him and calls on the prime minister to step down; a court recently sentenced an adopted brother of Anwar and another former associate to 6 months in prison for allegedly allowing Anwar to sodomize them; Anwar has repeatedly denied those charges, as well as accusations of treason and other crimes the government has leveled at him.

Sept. 20—After a huge anti-Mahathir rally in Kuala Lumpur, police arrest Anwar, apparently on charges of sexual indecency.

Sept. 21—Riot police use tear gas and water cannons to disperse crowds protesting Anwar's arrest; at least 50 people are reportedly arrested and an unknown number injured.

Sept. 26—Police arrest and beat protesters in breaking up a pro-Anwar rally in Kuala Lumpur.

Sept. 29—Visibly bruised and saying he has been beaten in prison, Anwar testifies in court that he is innocent of 5 charges of corruption and 4 of sexual misconduct.

Reuters news agency reports that the 2 Anwar associates recently jailed after confessing to having allowed Anwar to sodomize them have retracted their confessions and are seeking to appeal their convictions.

Sept. 30—Mahathir suggests at a news conference that Anwar may have punched himself in the eye in order to appear to have been tortured by the police, an independent doctor allowed to examine Anwar yesterday said today that in his opinion Anwar was beaten.

MALTA

Sept. 6—Nationalist Party leader Eddie Fenech Adam is sworn in as prime minister after Labor Party leader Alfred Sant concedes defeat in yesterday's election, Fenech Adam, who was prime minister for 9 years before being voted out in 1996, today renewed his commitment to EU membership for Malta, which the Labor government had not pursued.

MEXICO

Sept. 10—Authorities in Ciudad Juárez find the body of alleged drug kingpin Rafael Muñoz Talavera; US officials believe Muñoz launched a violent campaign to take control of the Juárez drug cartel after the death last year of its leader, Amado Carrillo Fuentes.

Sept. 17—Gunmen kill at least 18 people from 3 families in Ensenada, along Mexico's northwest coast; 3 people survived the execution-style shootings but were wounded, including Fermín Castro, a cattle rancher under federal investigation for alleged involvement in drug trafficking.

Sept. 19—The *New York Times* reports that after a 3-year investigation, Swiss police have concluded that former Mexican President Carlos Salinas de Gortari's brother, Raúl Salinas, played a major role in protecting cocaine shipments through Mexico, skimming at least \$500 million in profits and funneling drug money into his brother's 1988 campaign, Switzerland is expected to use the report to argue for seizing more than \$130 million that Raúl Salinas deposited in Swiss banks.

NIGERIA

Sept. 7—In his 1st press conference since taking office, Nigeria's military head of state, General Abdulsalam Abubakar, makes

public a draft constitution and says that economic privatization will begin soon. Abubakar took office in June, after the death of military dictator General Sani Abacha; the draft constitution is intended for use by an elected civilian government that is to take over in May 1999.

Sept. 19—The *New York Times* reports that the government has dropped treason charges against exiled writer Wole Soyinka and 14 other dissidents; Abubakar said that the charges were dropped to further national reconciliation.

PAKISTAN

Sept. 23—In a speech to the UN General Assembly in New York, Prime Minister Nawaz Sharif pledges that Pakistan will sign the Comprehensive Test Ban Treaty by September 1999, when the treaty is scheduled to go into force. Pakistan may not sign, he says, if India resumes testing or if international sanctions imposed on Pakistan after it conducted nuclear explosions in May are not lifted; today Sharif met with Indian Prime Minister Atal Bihari Vajpayee, and the 2 agreed to resume high-level talks on the disputed territory of Kashmir, to put an end to sporadic artillery battles in the territory, to set up a hot line, and to improve transportation links between the 2 countries.

PERU

Sept. 30—After a peaceful protest by 5,000 people against President Alberto Fujimori, hundreds of demonstrators storm the grounds of the presidential palace in Lima and clash with police and soldiers.

ROMANIA

Sept. 23—Finance Minister Daniel Dănuș is dismissed after criticism from the Liberal Party, 1 of 4 parties in the governing coalition, that he had not done enough to reform the economy and lower taxes; his replacement, Decebal Traian Remes, a Liberal, is sworn in.

RUSSIA

Sept. 2—In Moscow, US President Bill Clinton and Russian President Boris Yeltsin conclude a 2-day summit; yesterday the 2 presidents signed an accord under which the US will share data about the launching of ballistic missiles and space payloads with Russia. Yeltsin and Clinton also signed an agreement yesterday committing each country to remove and dispose of 50 tons of plutonium from military stockpiles.

Sept. 7—The Duma votes, 238 to 138, to reject for a 2d time Yeltsin's nominee for prime minister, former Prime Minister Viktor Chernomyrdin; Yeltsin can dissolve parliament and call fresh elections if his nominee is rejected a 3d time; also today, the chairman of Russia's central bank, Sergei Dubinin, resigns under increasing criticism for his role in managing Russia's current financial crisis.

Sept. 10—Yeltsin names Foreign Minister Yevgeni Primakov as his new nominee for prime minister.

Sept. 11—The Duma votes overwhelmingly to confirm Primakov; speaking after the vote, Primakov promises a government of unity to bring the country out of social and economic crisis; parliament also votes to approve Yeltsin's appointment of Viktor Gerashchenko as chairman of Russia's central bank; in the early 1990s Gerashchenko was widely viewed as an opponent of Yeltsin's push for Western-style reform.

Sept. 22—Yeltsin establishes by decree an inner cabinet of Primakov and his 6 top deputies, under the decree representatives from 8 broadly delineated geographic regions will participate fully in the government, including federal policymaking; Valentina Matviyenko, Russia's ambassador to Greece and the new deputy prime minister for social issues with the presidium, will be the 1st woman to serve in a top Russian government position.

Sept. 30—Boris Fyodorov, head of the Russian State Tax Service, is dismissed from his post, he was the last free-market reformer on Primakov's team.

SLOVAKIA

Sept. 29—The central election committee releases official results of the September 25–26 national elections; Prime Minister Vladimir Meciar's Movement for a Democratic Slovakia finished 1st, with 27% of the vote and 43 of 150 parliamentary seats, but the 4 main opposition parties, led by the Slovak Democratic Coalition with 26% of the vote, won a total of 93 seats and are expected to form a new government.

SOMALIA

Sept. 27—In Mogadishu, militia fighters loyal to Hassan Osman Ali attack a World Food Program convoy returning from delivering aid to south central Somalia, killing 2 convoy guards loyal to faction leader Hussein Mohamed Aidid, who controls most of southern Mogadishu under a recent agreement with another faction leader, Ali Mahdi Mohamed; Hassan Osman Ali has not joined the agreement and violence has increased with his followers' attempts to block its implementation.

SOUTH AFRICA

Sept. 4—The *New York Times* reports that a 2d person has died from wounds inflicted by a bombing of an American-theme restaurant in Cape Town last month; 26 people were injured in the explosion, no arrests have been made.

Sept. 8—Johan Coetzee, a former commander of South Africa's apartheid-era national police Security Branch, testifies before the Truth and Reconciliation Commission; he admits participation in numerous murders and bombings outside South Africa, including in London and in other African countries; the murders and bombings occurred under the rule of former President P. W. Botha.

SPAIN

Sept. 16—The separatist guerrilla group Basque Homeland and Liberty (ETA) declares a "total and indefinite" cease-fire starting in 2 days, the ETA's 30-year war for an independent homeland in northern Spain has claimed about 800 lives.

SRI LANKA

Sept. 30—Red Cross officials say more than 1,300 Tamil rebels and government soldiers have been killed in fighting in the past 3 days over control of a strategic highway linking Colombo with the northern town of Jaffna, the rebels have been fighting since 1983 for a separate homeland in northern and eastern Sri Lanka for minority Tamils, 54,000 people have died in the war.

SWEDEN

Sept. 20—In national elections today, the governing Social Democrats of Prime Minister Goran Persson defeat the conservative Moderates of former Prime Minister Carl Bildt, with 36.5% of the vote to 22.7%; the Left Party, the former Communists, takes 12% of the vote, and the Green Party 4.5%; the Social Democrats campaigned on a promise to expand Sweden's social welfare programs.

TANZANIA

Sept. 21—A court in Dar es Salaam, the capital, charges 2 men, Mustafa Mahmoud Said Ahmed, a Saudi Arabian, and Rashid Saleh Hemed, a Tanzanian, with 11 counts of murder in

connection with the August 7 bombing of the US embassy that killed 11 people.

TURKEY

- Sept. 14—A man hijacks a Turkish Airlines plane bound for Istanbul and forces it to Trabzon, then releases all the passengers and surrenders; he says the hijacking was intended as a protest of a government ban on Islamic head coverings at universities.
- Sept. 23—A court upholds a 10-month prison sentence for Recep Tayyip Erdogan, the popular Islamist mayor of Istanbul, for "provoking hatred" in a speech last year.
- Sept. 26—Deputy Prime Minister Bulent Ecevit says Turkey will send an ambassador to Iraq for the 1st time since 1992; the move was apparently prompted by the government's fear that a recent US-brokered accord between 2 Kurdish factions in northern Iraq could encourage separatist Kurdish insurgents in their rebellion in southeastern Turkey; Ecevit also said today that Turkey would return its ambassador to Libya, who was recalled 3 weeks ago over alleged Libyan support for Turkey's Kurdish rebels.

UNITED KINGDOM

Northern Ireland

- Sept. 3—US President Bill Clinton visits Northern Ireland and urges its people not to throw away the present opportunity for peace; the Irish and British governments and most of Northern Ireland's political parties, including Sinn Fein, the political wing of the Irish Republican Army (IRA), signed a peace accord in April that established a provincial government in which power is shared by Protestants and Catholics and provided for greater Irish say in Northern Ireland's affairs.
- Sept. 7—Sinn Fein leader Gerry Adams and First Minister David Trimble, the leader of the Ulster Unionist Party, speak face to face for the 1st time ever; the historic exchange came at a preliminary session of leaders of the new provincial assembly elected in June.
- Sept. 8—The Real IRA, a Catholic republican splinter group whose car bomb in the town of Omagh last month killed 29 people and wounded hundreds more, announces "a complete cessation of all military activity"; after the bombing last month the group had called a suspension of its campaign.
- Sept. 10—Provincial officials announce that British troops, in accordance with the April peace agreement, will stop patrolling the streets of Belfast in 2 days, and that as many as 12 Catholic and Protestant paramilitary prisoners will be granted early release.

UNITED STATES

- Sept. 11—The House of Representatives votes overwhelmingly to authorize the public release of a report sent to the house by independent counsel Kenneth Starr, the report alleges that President Bill Clinton committed 11 impeachable offenses arising from his 1995-1997 affair with a White House intern, Monica Lewinsky; the report accuses the president of perjury, obstruction of justice, witness tampering, and abuse of authority; the house must decide whether Starr has presented a compelling case for impeachment, censure, or other reprimand.
- Sept. 22—A federal grand jury in New York indicts Wadhi el Hage of Arlington, Texas, on 8 counts of lying to a grand jury about his knowledge of the activities of Osama bin Laden, the Saudi Arabian exile suspected of masterminding the August 7 bombings of the US embassies in Kenya and Tanzania that killed a total of 258 people; the indictment says Hage traveled to other countries to purchase chemical weapons and their components for bin Laden.

YUGOSLAVIA

Serbia

- Sept. 4—Serbian troops battle separatist guerrillas of the ethnic Albanian Kosovo Liberation Army (UCK) in the area of Oraovac, in western Kosovo province; UCK wants independence for Kosovo, a province of Serbia whose population is 90% ethnic Albanian; fighting in the province has displaced as many as 250,000 people in the last several months.
- Sept. 8—Government troops reportedly shell and burn villages in the area of Pec, in western Kosovo, sending an estimated 40,000 ethnic Albanians fleeing.
- Sept. 20—A UN official says that Serbian attacks on villages near Podujevo, 20 miles north of Pristina, forced an estimated 10,000 civilians to flee between September 15 and 18.
- Sept. 23—The UN Security Council passes a resolution calling on Serbia to stop attacking civilians in Kosovo or face international intervention; the resolution also calls on all parties to the conflict to adopt a cease-fire and enter negotiations.
- Serbian forces continue an offensive near Pristina, sending an estimated 10,000 refugees fleeing; Serbian police block EU monitors and UN workers from entering the area.
- Sept. 28—US and EU monitors report that they have inspected the bodies of 15 women, children, and elderly men apparently shot in the head at close range by Serb forces 2 days ago in the village of Gornji Obrinje, west of Pristina; 13 men were reportedly massacred that same day in nearby Gohubovac, and 6 other people were killed in villages in the area. ■

PERSPECTIVES

As with any crisis, revisionism is rampant about the cause of the Asian flu. World Bank economist Joseph Stiglitz argues that the more extreme views are blind to the larger picture of how Asia achieved its economic growth—and what needs to be done to remedy the financial ills that precipitated the crisis.

BUILDING A BETTER UMBRELLA

Joseph Stiglitz

IN THE LAST SEVERAL MONTHS, the public discourse about East Asia has been completely transformed. After proclaiming its successes, we now condemn its failures. I have no doubt which of these two is more lasting. Although a significant setback, it is hard to imagine the current turmoil undoing the gains of the past quarter century.

Pundits are inclined to hyperbole and to simple explanations of complex phenomena. The reality of East Asia's past success and current turmoil is probably somewhere in between the two extremes. One can see this, for example, by examining the strident accusations of "crony capitalism." True, business-government interaction in the region (the so-called Japan, Inc., and Malaysia, Inc.) always included the danger that the fine line between consensus building and collusion, between partnership and political cronyism, would be crossed. Indeed, those concerns were one of the reasons that many of us hesitated to suggest that other countries follow all aspects of the East Asian model.

Nevertheless, on balance, while there may have been some misallocation of resources as a result of abuses of power, the strength of the East Asian system outweighed the risks for many years. Perhaps the gains from improved coordination exceeded the losses from misguided investments. In any case, only an ideologue would claim that but for their system of close

government and business cooperation they would have grown even faster.

In my remarks, I have tried to shed some light on one particularly important area: the financial system. We have come a long way since the time when many viewed the financial system simply as a sideshow, or a passive channel that allocated scarce resources to the most efficient uses. Today, almost everyone agrees that the financial system is essential for development. Improving the financial system can lead to higher growth and reduce the likelihood and severity of crises. In thinking about financial reform, we need to treat liberalization as a means rather than an end. Instead of pushing for immediate deregulation, we should be trying to understand the important role government plays in financial markets. These steps will not only result in the better allocation of domestic capital, but also help countries to manage international capital flows.

At the same time, however, we should not adopt policies toward international capital flows based on the premise that domestic financial regulation is perfect. Developing countries all have a long way to go until their regulatory systems are as sophisticated as those of the United States, and even the United States continues to suffer from periodic financial debacles.

Recently there have been a number of discussions about reforming or renewing the international financial architecture. Some of these discussions are reminiscent of the debates more than a century ago about how national economic institutions could help the new nation-states achieve their full potential. In the United States, in

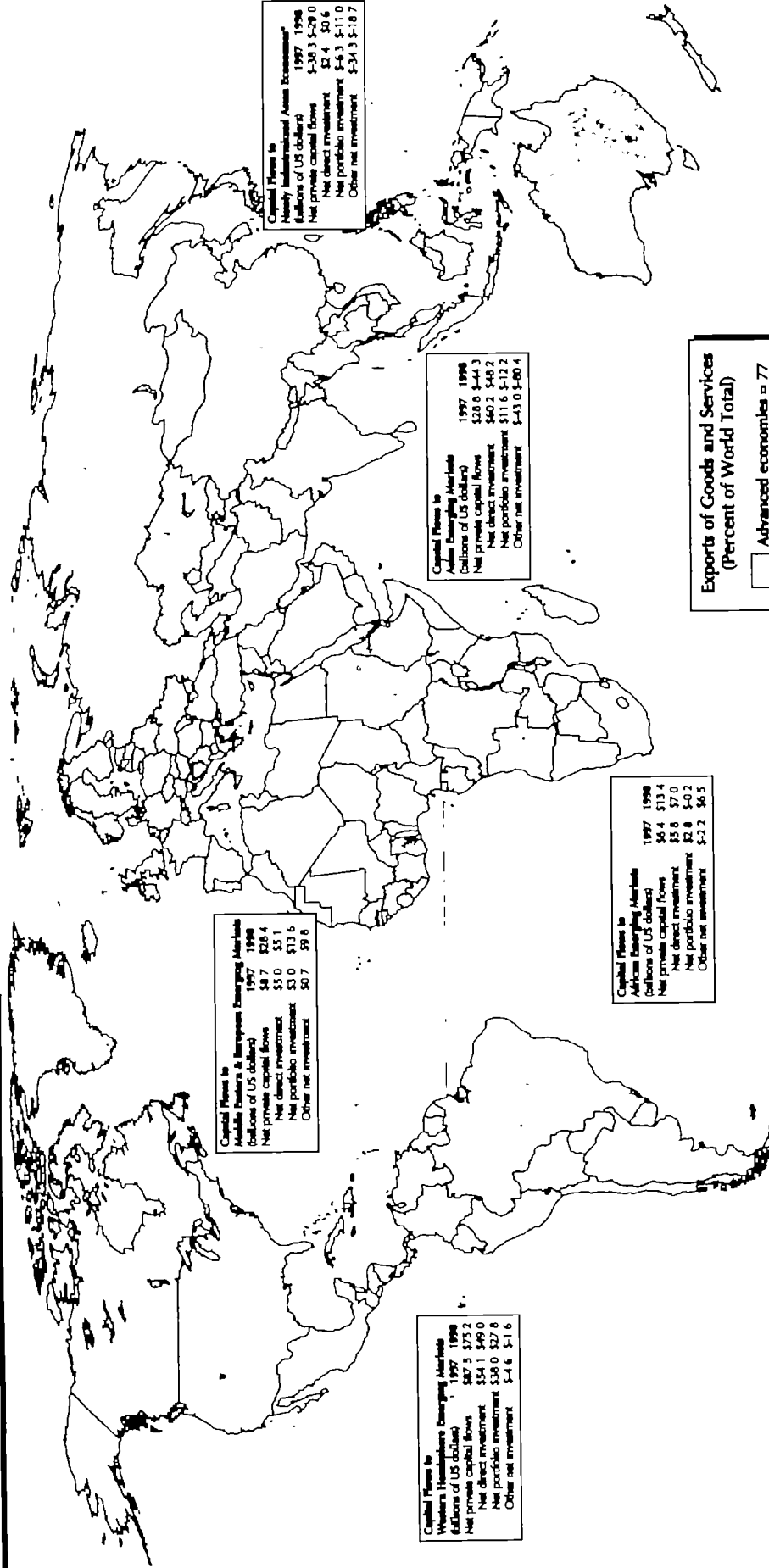
the midst of the Civil War in 1863, as Congress grappled with the challenge of providing the foundations of a new, stronger, unified country, it established the world's first financial sector regulatory body, the Office of the Comptroller of the Currency. It took more than a century before the country began to feel comfortable with a system of national banking—and even now there are misgivings in many parts of the country.

Today we stand on the edge of a new world economy. But we do not have international institutions to play the role that the nation-states did in promoting and regulating trade and finance, competition and bankruptcy, corporate governance and accounting practices, taxation and standards, within their borders. Navigating these uncharted shoals will be a great challenge. But just as much of the prosperity of the past 150 years can be related to the expansion of markets that those transformations afforded, so too the prosperity of the next century will depend in no small measure on our seizing the opportunities afforded by globalization.

In approaching the challenges of globalization, we must eschew ideology and over-simplified models. We must not let the perfect be the enemy of the good. As one of my friends put it, in a downpour it is better to have a leaky umbrella than no umbrella at all. I believe that there are reforms to the international economic architecture that can bring the advantages of globalization, including global capital markets, while mitigating its risks. Arriving at a consensus about those reforms will not be easy. But it is time for us to intensify the international dialogue on these issues. ■

JOSEPH STIGLITZ is chief economist of the World Bank. These remarks are excerpted from an address he delivered before the Asian Development Bank in March 1998.

GLOBAL EXPORTS AND CAPITAL FLOWS



Percentages total more than 100 because of rounding.
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*Hong Kong, South Korea, Singapore, and Taiwan

Data source: International Monetary Fund, World Economic Outlook, 1998

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- 14 - West (1981, '82, '84, '86, '88)
15 - East (1981, '82, '85, '87, '89)
16 - (1990-94)

China

- 17 - (1980-83) 19 - (1988-91)
18 - (1984-87) 19A - (1992-95)

Canada

- 20 - (1980, '84, '88, '91)

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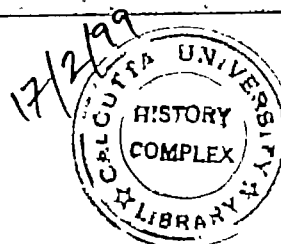
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To the editor:

I read with interest the article "The Cashless Society" by Marshall I. Goldman in the October 1998 issue of *Current History*. I was astounded, however, at the solution to the economic crises in Russia he recommends. He seems to think that "the most effective action would be to insist on the determined application of bankruptcy procedures."

One of the causes of current economic crises in Russia is the Russian government's lackluster attempt at economic deregulation. The other cause is that it is spending more money than it is collecting in taxes.

When I think about economic reform I think about Chile and Singapore. Both have been at the forefront of deregulation in their respective regions. As a result, Chile has recently achieved the highest standard of living in Latin America and Singapore has recently achieved the highest standard of living in Asia.

France, Germany, and Italy have taken the opposite tack during the last 40 years. They have increased taxes, government spending, and government regulation. These policies have slowed the economies of these nations, which has led to unemployment rates above 10 percent.

In general, the more a government tries to regulate economic activity, the more the economy suffers.

People all over the world continue to receive confusing and conflicting messages about what is best for economic growth. The answer is clear. What works best is deregulation, balanced budgets, low, uncomplicated taxes, and low government spending.

Vladimir Razdolsky
Roseville, Michigan

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CURRENT HISTORY

December 1998

"It would be a grave mistake to view India's nuclear tests simply as a product of short-term expediency" on the part of the present government.

"To understand their full significance, the tests must be placed in the broader context of recent Indian history."

India: The Nuclear Politics of Self-Esteem

PRATAP BHANU MEHTA

India's decision to conduct five nuclear tests in the deserts of Rajasthan on May 11 and 13, and the resulting pressure on Pakistan to follow suit, have come as a revelation. Although no legal agreements were broken by these tests, and although the precise strength of the devices exploded remains a matter of some dispute, there is a palpable sense that they represent a decisive break with India's past commitments.

For many, the tests represent India's misplaced sense of priorities. Its attempts to secure great power status through military means rather than by attending more assiduously to the economic well-being of its citizens seems misguided. The nuclear tests also appear to represent a decisive break with the best moral intimations bequeathed by Gandhi and Nehru, who for all their failings articulated an idealism that could have been the basis of a more morally exemplary foreign policy. Internationally, India's tests have challenged the privileges of the established nuclear order and seem to have dealt a blow to hard-won successes to combat nuclear weapons proliferation.

It has also been argued that the compulsion behind the testing was primarily driven by domestic concerns. The Bharatiya Janata Party, the major party in the ruling coalition that assumed office in March 1998, had openly declared during the election campaign its intention to make India a nuclear power. Since coming to power, the BJP government had been struggling to find its footing. The BJP's concerted efforts to portray itself as a moderate, centrist party had left it without a clear ideological direction. Yet the political brinkmanship of many

of its coalition partners seemed to pull the government in many directions at once. In such circumstances, conducting nuclear tests was a way to shore up the government's credibility and demonstrate its decisiveness.

While it is difficult to determine the government's motives, it would be a grave mistake to view India's nuclear tests simply as a product of short-term expediency. The tests had an almost 80 percent approval rating among the Indian public, and despite some protest by peace activists, enthusiasm for them seems not to have abated significantly. But the BJP has not been the electoral beneficiary of this enthusiasm and is still at the mercy of its allies. To understand their full significance, the tests must be placed in the broader context of recent Indian history.

GOADED BY INSECURITY

India faces a formidable security environment. To its north lies China, with which it has had a protracted border dispute and by whom it suffered a humiliating defeat in the 1962 Sino-Indian conflict. China's nuclear arsenal also has a commanding presence in the region. Moreover, China is widely believed to have provided substantial nuclear and missile program aid to India's western neighbor, Pakistan, with which India has fought three wars since independence in 1947. Pakistan has long regarded India as a threat, and since its dismemberment in the 1971 war with India (when East Pakistan became Bangladesh), its sense of vulnerability has grown more acute. Given balance of power considerations in South Asia, the surprise is not that there were nuclear tests, but that it took so long for them to occur.

Since independence, India has attempted to develop an autonomous foreign policy. This policy

PRATAP BHANU MEHTA is an associate professor of government and social studies at Harvard University

has resisted accepting the international order created in the aftermath of World War II. During the cold war this meant an insistence on nonalignment: a refusal to become permanently attached to any great power, and a desire to establish a regional zone free of great power competition. Indians view the current international order as protecting the prerogatives of the five declared nuclear powers (Russia, the United States, China, Britain, and France), none of which has displayed a credible commitment to disarmament. And this order seems particularly incapable of attending to the security aspirations of emerging powers like India.

Whatever their other differences, successive governments in India have kept the nuclear option open by refusing to sign the nuclear Non-Proliferation Treaty and the Comprehensive Test Ban Treaty. Indeed, India's tests would not have been technically feasible unless previous governments had laid the groundwork. But while it had long ago compromised the idealism of the early days of the nonaligned movement, none of its previous governments had been able to publicly jettison entirely the high moralism bequeathed to India by its first prime minister, Jawaharlal Nehru. The BJP has, in this respect, simply articulated more expressly the desire for a nuclear deterrent that had guided Indian policies all along but had never been quite owned up to.

There ought to be many legitimate misgivings about the fact that this decision was taken by the BJP. For example, there are factions allied with the ruling BJP whose brand of nationalism perilously strains India's minorities. But the overwhelming support for the tests and the long-range policy decisions from which they emerged make them more than an artifact of the BJP's political caprice.

THE NUCLEAR CHOICE

India's road to nuclear power status began as early as 1948, with the establishment of an Atomic Energy Commission; by 1954 a Department of Atomic Energy was receiving steady funding. The objectives of the program, at least until the 1962 Sino-Indian conflict, were primarily long-term civilian needs.

The 1962 conflict with China, however, convinced many Indians that intimidation by China would always be a prospect. In 1964, the year China became a declared nuclear power, Prime Minister Lal Bahadur Shastri gave the go-ahead for a nuclear program to reduce the time needed to build nuclear weapons to six months.

India's strategic environment after the 1971 war with Pakistan led to renewed urgency on the nuclear matter. Although Pakistan was dismembered and did not pose an immediate security threat, the emerging thaw in Sino-American relations and the perceived United States tilt toward Pakistan only underscored India's sense of insecurity. President Richard Nixon's dispatch of an aircraft carrier task force to the Bay of Bengal during India's war with Pakistan over Bangladesh's independence did nothing to alleviate fears of a United States-China-Pakistan axis. That provided the context for India's first nuclear tests in 1974 under Prime Minister Indira Gandhi. In the early 1990s, Prime Minister Rajiv Gandhi is widely believed to have given India's nuclear program a further impetus.

Thus, although the BJP-led government was the first to openly declare India a nuclear weapons state, India's nuclear option has been kept open through-

out the years, in part because of a palpable sense that it alone had to meet its security needs. Although India had close ties with the Soviet Union, these were not enough to overcome its sense of isolation. The end of the cold war, with Russia no longer a dominant power, the Sino-American relationship on a better footing than ever, and well-grounded suspicions of Chinese aid to Pakistan, only increased India's sense of isolation.

In recent years these strategic conundrums have converged with India's psychological anxieties. The last two decades have been trying ones for India. A spate of secessionist movements, a widespread sense of declining importance in world affairs, and a realization that many of its highest hopes remain substantially unredeemed have underscored India's insecurities and vulnerabilities. With two pillars of India's self-image since independence—its state-led mixed economy and its central role in the non-aligned movement—appearing increasingly irrelevant, India has been struggling to redefine itself. Economic reforms carried out in the early 1990s have brought a new vibrancy to certain sectors of the economy, but these have yet to be translated into enduring gains for the entire nation. Although its democracy remains the repository of immense hopes, its institutions often appear overburdened and ineffective in the face of the overwhelming tasks that confront them. The uncertainties of its emerging economic and political landscape and its sense of marginalization have contributed to an evident, if quiet, crisis of confidence.

The surprise is not that there were nuclear tests, but that it took so long for them to occur.

India's Nuclear Potential

Type	Number Deployed	Range (km)	Payload (kg)	Country of Origin
<u>AIRCRAFT</u>				
Jaguar	116	2,600	4,750	Great Britain
MiG-27	200	1,100	4,000	Russia
MiG-29	74	1,500	3,000	Russia
Su-30	8+	3,000	8,000	Russia
Mirage 2000	42	1,850	6,300	France
<u>LAND-BASED MISSILES</u>				
Prithvi-150	Operational	150	1,000	India/USSR
Prithvi-250	Development/Tested	250	500	India/USSR
Prithvi-350	Development	350	500	India/USSR
Agni	Development/Tested	2,000	1,000+	India/US/France
Surya	Development	12,000	n/a	India
<u>SUBMARINE-LAUNCHED BALLISTIC MISSILES</u>				
Sagarika	Development	300	500	India/Russia?

Sources. *Tracking Nuclear Proliferation* (Washington, D.C.: Carnegie Endowment, 1998) and www.cetp.org/programs/npp

These anxieties make the politics of the global nuclear regime appear to many Indians to be as much about cultural authority as about strategic interests. The ability of the five nuclear powers to publicly define India's concerns and capacities as they see fit is considered linked to their own technological superiority. The five are also viewed as discriminatory for not allowing India to act on the kind of strategic considerations that they have acted on themselves in continuing to possess nuclear arsenals. But there is also a perception that the furor over India's nuclear capacities rests on unstated cultural assumptions: that the subcontinent is full of unstable people with deep historical resentments, incapable of acting rationally or managing a technologically sophisticated arsenal. Both the stridency of some Western responses, and India's sense of being treated with indifference and contempt, stem from this politics of cultural representation.

THE VIEW FROM INDIA

Given the character of the Chinese regime and its record on Tibet and on nuclear proliferation, the refrain frequently heard in India during the nuclear tests—Why does the West trust China more than India?—was as much a question about cultural perceptions of the two countries in the West as anything else. The tests were greeted with overwhelming public support in India because they seemed to represent the fact that, despite the fragmentation of its politics, the country was still capable of carrying out a national project of some technological sophistication.

The structure of international power merely reinforces these grievances. India, despite its size and flourishing democracy, is only a marginal player in most international institutions. Indians perceive themselves as part of an international order that confines India to an inferior status. In a paradoxical sense, the failure of the five declared nuclear powers to show any credible commitment to abolishing nuclear weapons contributes to a sense of inferiority by reaffirming that the rules of the international order are applied differently to India.

It has been clear for some time that India considers China a prime source of its strategic worries. But the West has insisted that relations between India and Pakistan are the only significant variables in the strategic scenarios in South Asia. To be sure, there are elements in both India and Pakistan that are obsessed with each other. But from India's standpoint, China's emergence as the second most important power in the world looms large. To India's humiliation in 1962 has been added the perception that an emerging Sino-American relationship would forever marginalize India in Asian and global geopolitics. It is not entirely an accident that India's first nuclear tests in 1974 came after a thaw in Sino-American relations; the recent tests have been conducted against the backdrop of the perception that Washington will do little to stand up to Beijing.

India has kept the nuclear option open because of fears about its own territorial security, its strategic isolation, and its wounded cultural pride. These larger concerns have a disproportionate effect on its relations with Pakistan. The Indian state of Kash-

mir, for example, has been the object of a protracted dispute since both India and Pakistan became independent and will continue to generate tensions. But there are significant silver linings. India and Pakistan have not gone to war over Kashmir since 1965. Indeed, many observers argue that the existence of deployable nuclear weapons on the subcontinent may have done much to prevent outright war between the two countries since 1971.

WHAT NEXT?

The transition from what has been described as a state of "existential nuclear deterrence"—wherein each side denied possessing nuclear weapons but was nevertheless cognizant of the other side's capabilities to produce them—to an overt deployment of weapons poses immense challenges.

The government's official line is that India aims to acquire a "credible minimum deterrent." But there is a good deal of uncertainty over whether India is capable of committing the resources that such an endeavor may require. Oddly enough, India's defense expenditures have fallen from an average of 3.6 percent of GDP in the 1970s and 1980s to around 3 percent of GDP in the 1990s.

While there was public support for the tests, support for massive militarization is more tepid and may not extend beyond this government. Shortly after conducting the tests, India undertook a "no first use" pledge, declared its intent to voluntarily abide by the requirements of the Comprehensive Test Ban Treaty, and put stringent controls on transferring technology to other countries.

The years of nuclear ambiguity had the disadvantage of preventing India and Pakistan from developing confidence-building measures that the possession of nuclear arsenals requires. The challenge of articulating and implementing such measures is now heightened by the two countries' ballistic missile capabilities, which will have to be the subject of any confidence-building negotiations.

On the Indian side the domestic pressures impeding such talks are twofold. On the one hand there is great reluctance in India to make Kashmir a central issue in talks between the two countries. This slows down dialogue considerably in other areas as well. And the domestic political pressures that make Kashmir a nonnegotiable issue for India are unlikely to abate soon. On the other hand, India is entering a period of political uncertainty and coalition governments. Each of the important political parties is unsure of its own stance on the nuclear issue. The BJP oscillates between belligerence and restraint; the

Congress, the BJP's main rival, has not made its views clear on any of the basic issues involved. The lack of political clarity will hamper the formation of a national consensus on the issue, which may in turn complicate negotiations with other states and international organizations.

But, paradoxical as it may sound, without the nuclear tests, India would have found it politically difficult to reconsider its past opposition to the Comprehensive Test Ban Treaty. It has already signaled some flexibility in this direction. It can now claim that it is entering negotiations after attending to its technological needs, on its own terms. It is not insignificant that India's hawkish scientific establishment, which had all along insisted that India needed to conduct further tests, given the low yield of the first tests conducted in 1974, has conceded (at least in principle) that no further tests are required to retain a credible nuclear deterrent. In this respect India will emulate France and China, both of whom conducted tests just before joining the treaty.

Much will depend on the negotiations between the United States and India. Since the tests, high-level officials from both countries have had three rounds of talks. Few details have been made public, but the fact that the talks are being held is interpreted in India that some progress is occurring in narrowing the differences between the two sides. There is little chance that India will be accorded formal recognition as a nuclear power—since that would be seen as rewarding India—but it may settle for less. Principally, it will look for credible restraints on Chinese proliferation to Pakistan and the lifting of restrictions on India's access to dual-use technologies. If it achieves this much it can present the signing of the Comprehensive Test Ban Treaty as a political victory.

THE BEGINNINGS OF HOPE?

The strategic drama in South Asia is far from over, but both Pakistan and India need to attend to their domestic challenges and to the surer foundation on which power rests: economic well-being. In the short run the cost of economic sanctions has been considerably higher for Pakistan than for India. But if these tests can lay to rest some of the politics of self-esteem that has characterized the subcontinent, they may in the long run enhance the confidence of both countries in their dealings with the rest of the world. The presence of weapons of mass destruction ought not to be a matter of celebration under any circumstances. But somewhere in the space between complacency and alarmism may lie the beginnings of hope. ■

"Appeals to national unity by invoking the Indian threat are unlikely to divert domestic attention from the harsh economic climate as well as the crisis of governance within [Pakistan]. . . The Sharif government might just find itself a victim of the problems that have emerged because of its decision to test Pakistan's nuclear capability."

The (Nuclear) Testing of Pakistan

SAMINA AHMED

On May 28 and 30, 1998, Pakistan conducted a series of nuclear tests, a tit-for-tat response to those India had carried out on May 11 and 13. The implications of the tests for Pakistan are multifaceted, with international, regional, and domestic security repercussions.

At the international level, Pakistan's decision to follow India and claim the status of a nuclear weapons power has created new challenges for the global nonproliferation regime. And international reaction to these challenges has led to myriad problems for Pakistan, including economic sanctions imposed by the United States.

Regionally, Pakistan's troubled relations with India have been further strained. Nuclear ambiguity has been replaced by overt nuclear weapons policies, which have increased the danger of a nuclear exchange between two hostile adjoining states. At the domestic level, nuclear testing has deepened internal fissures along regional and ethnic lines that will be exacerbated as the international sanctions regime begins to affect Pakistan's fragile economy. Pakistan's Muslim League government thus confronts domestic instability and impending economic collapse at a time when the country's security environment has become more uncertain.

A NUCLEAR NADIR

Pakistani suspicions of Indian motives are deeply ingrained. The country's humiliating defeat by India in the 1971 war that saw its eastern region reborn as Bangladesh has continued to rankle. It is this his-

tory of mutual suspicion and competition that has fueled the conventional and nuclear arms race in South Asia. And it is this legacy of hostility that contributed to the Pakistani decision to test following the Indian nuclear explosions in May.

Pakistani policymakers saw India's abandonment of its long-standing policy of nuclear ambiguity as a challenge that had to be met in kind. Issues of prestige played an important role in determining a response. Announcing the Pakistani nuclear tests, Prime Minister Nawaz Sharif declared, "Today we have settled scores with India. We have paid them back." An enhanced sense of insecurity was an additional motive. In the wake of the Indian tests, Pakistan was warned by India's governing hard-line Bharatiya Janata Party (BJP) to abandon its support of Muslim militants in the disputed region of Kashmir or face the consequences in a changed strategic environment. For Pakistan's decision-makers—especially the military—only a demonstration of the country's nuclear weapons capability could offset Indian pressure in view of the disparity in conventional arms.

Since the tests, relations with India have sunk to a new low. Pakistan accuses India of destabilizing South Asia with its aggressive nuclear posture. India, for its part, claims that its decision was directly related to the security threats from and the nuclear collaboration between two neighboring hostile states—Pakistan and China.

The war of words between Pakistan and India further intensified in July and August with clashes between their militaries along the Line of Control dividing Pakistani-controlled from Indian-held Kashmir. Neither country has shown an interest in deescalating tensions. Since the Pakistani test, India's BJP government has reiterated its warning to Pakistan to end its support for Kashmiri dissidents.

SAMINA AHMED is coeditor, with David Cortright, of *Pakistan and the Bomb* (Notre Dame, Ind.: University of Notre Dame Press, 1998).

INTERNATIONAL CARROTS AND STICKS

The fear of a nuclear confrontation between India and Pakistan has lent new urgency to international efforts to persuade both states to end their nuclear arms race. Hoping to nip the nuclear rivalry in the bud, the United States attempted to dissuade Pakistan from testing in the weeks after India's nuclear explosions. High-level United States delegations tried to convince the Sharif government that Pakistan would gain in international prestige if it refrained from testing.

As an incentive for nuclear restraint, the United States offered to repeal the 1985 Pressler amendment, which had led to a ban on United States economic assistance and military sales to Pakistan in 1990 after President George Bush failed to certify to Congress that Pakistan did not possess nuclear weapons. Since the imposition of the ban had adversely affected the conventional capabilities of Pakistan's armed forces, the United States hoped to dissuade the Pakistani military—the dominant domestic actor in the nuclear decision-making apparatus—from supporting a retaliatory Pakistani nuclear test.

With the Pakistani economy in a shambles because of mismanagement by successive governments, economic incentives were also deployed. These reportedly included the resumption of bilateral economic assistance, loans, and grants, as well as United States support for similar assistance from multilateral agencies such as the World Bank, the IMF, and the Asian Development Bank.

The incentives were accompanied by the threat of sanctions. In their discussions with Pakistani authorities, United States officials warned of the dire consequences of nuclear testing. Not only would the Pressler amendment ban stay in place, but under the 1994 Glenn amendment the United States would be forced to end government financing and insurance for investment in Pakistan and would oppose multilateral loans. Japan, Pakistan's major aid donor and one of its main trading partners, also tried to dissuade Pakistan from testing by offering incentives and threatening sanctions. On May 28 Pakistan responded to both countries' entreaties by conducting the first of its nuclear tests.

Predictably, the international community condemned Pakistan for undermining the international nonproliferation regime. Japan was among the first to impose economic sanctions, halting all but humanitarian assistance. Japanese sanctions have had a severe effect on development activities in Pakistan, which are mainly financed by external

donors. But it was the United States decision to block preferential loans from international financial institutions such as the World Bank that has had the greatest impact on the Pakistani economy, which is heavily dependent on external credit for foreign debt-servicing and for the import of essential commodities.

PAKISTAN'S MANEUVERINGS

The Sharif government was at first unconcerned about international criticism of its overt nuclear posture and did not appear to fear the potentially adverse impact of United States and Japanese sanctions. Why such complacency? First, in assessing the international reaction to India's nuclear tests, the government had assumed that the Western industrialized countries would remain divided over the issue of sanctions, undermining United States efforts to oppose lending to Pakistan from multilateral agencies. Second, in the perceptions of Pakistani policymakers, economic sanctions would be short-lived because of Pakistan's geopolitical and strategic significance as well as Western fears of resurgent Islamic fundamentalism in an unstable, overpopulated, Muslim-majority state. Third, it was believed that sympathetic Middle Eastern Muslim states such as resource-rich Saudi Arabia would come to Pakistan's rescue, and that allies such as China would help Pakistan overcome its international isolation.

Initially it appeared that Pakistan was correct in predicting that the international community would not uniformly counter the challenges posed by the new South Asian nuclear environment. On June 5, the UN Security Council passed a resolution strongly deploring Pakistan and India's nuclear tests and calling on them to sign the Comprehensive Test Ban Treaty (CTBT) and refrain from deploying nuclear weapons delivery systems. Neither Russia nor China, however, favored a punitive response. Britain and France also refused to impose economic sanctions. Pakistani policymakers were also reassured when China, its close ally and a major source of conventional and nuclear assistance, blamed India for provoking Pakistan's decision to test. China's reaction was understandable since the BJP government had partly justified India's nuclear tests on the grounds of a perceived Chinese nuclear threat.

But Pakistan's hopes that it would retain Chinese support for its nuclear weapons program have been dashed. Since India's and Pakistan's tests, the Chinese have become far more aware of the dangers posed to regional stability by an overt nuclear arms

Pakistan's Nuclear Potential

Type	Number Deployed	Range (km)	Payload (kg)	Country of Origin
<u>AIRCRAFT</u>				
A-5	60	600	1,000	China
Mirage III/5	180	500	3,500	France
F-16	32	850	2,500	United States
<u>LAND-BASED MISSILES</u>				
M-11	Storage (36+)	280	800	China
Hatf 1	18	80	500	Pakistan/France?
Hatf 1A	n/a	100	500	Pakistan/France?
Hatf 2	Development	280–300	500	Pakistan/China?
Hatf 3	Development?	600	500	Pakistan/China?
Ghauri	Development/Tested	1,500	500–750	Pakistan/North Korea

Sources: *Tracking Nuclear Proliferation* (Washington, D.C.: Carnegie Endowment, 1998) and www.cerp.org/programs/npp

race between two rival states in their immediate neighborhood. Although China has more forthrightly condemned the Indian nuclear tests, it has also called on Pakistan to restrain its nuclear weapons program.

In a surprising degree of confluence on the issue of South Asian nuclearization, China and Russia have jointly rejected Pakistani and Indian claims to nuclear weapons status, calling on their respective South Asian allies to unconditionally sign the nuclear Non-Proliferation Treaty (NPT) and the CTBT. The Chinese have also indicated that they are willing to accept United States demands for an end to the transfer of nuclear weapons-related technology and missiles to Pakistan. Should China implement these pledges, technological and financial constraints will severely hinder the expansion of Pakistan's nuclear weapons program.

Under American and Japanese pressure, the Group of Eight has also agreed to defer all but humanitarian loans from international financial institutions to Pakistan and India. The suspension of lending has created the very real threat of a Pakistani default on its external debt; foreign cash reserves are less than \$500 million and Pakistan's foreign debt exceeds \$38 billion, which is approximately 72 percent of the country's total GDP. According to Commerce Minister Ishaq Dar, economic sanctions will cost Pakistan \$4 billion annually: \$1.5 billion in concessional loans and aid, and \$2.5 billion in foreign investment and remittances. Attempts to acquire bilateral assistance from Middle Eastern allies such as Saudi Arabia and the United Arab Emirates have proved futile, since lending from institutions such as the Islamic Development Bank has been made contingent on IMF approval.

SIGNS OF MOVEMENT

The United States has made the resumption of bilateral or multilateral lending contingent on a number of nonproliferation conditions. These include demonstrated Pakistani support for negotiations on a Fissile Material Cutoff Treaty (which would ban the production of highly enriched uranium and plutonium for nuclear weapons) and a commitment to sign the CTBT. The United States has also demanded restraints on the assembly and deployment of nuclear weapons and their delivery systems; the nontransfer of nuclear weapons and missile technology; and a dialogue on normalizing relations with India.

In a recent rethinking of its exclusive focus on sanctions, the United States has considered the use of incentives to halt the South Asian nuclear arms race. In late October, President Clinton signed legislation that allows the president to lift sanctions on Pakistan and India for one year.

This combined approach of sanctions and incentives has begun to pay off. In a major departure from previous policy, Pakistan has indicated that it is willing to unilaterally sign the CTBT in return for the lifting of economic sanctions. The government has also agreed to participate in the negotiations for a Fissile Material Cutoff Treaty and has pledged its willingness to open a dialogue on normalizing relations with India. In return, the United States has announced that it will not block IMF lending to Pakistan.

The resumption of IMF lending will ease the pressure on the Pakistani economy, averting an immediate debt default. However, Pakistani accession to the CTBT will face considerable domestic opposition, especially from Islamist parties. Should

the Pakistan government sign the CTBT, it will face an internal backlash at a time when a resurgent opposition is attempting to overthrow Prime Minister Sharif, who has already lost the backing of his allied parties in at least two of Pakistan's four provinces.

DOMESTIC FALLOUT

The decision to test and the manner in which it was taken have driven a wedge between the governing Muslim League and one of its allies, the Baluchistan National Party (BNP), the ruling party in Baluchistan. The decision to opt for a retaliatory test was made by a policymaking apparatus dominated by Punjabis, Pakistan's ethnolinguistic majority. Punjabis control Pakistan's powerful civil-military bureaucracy. Prime Minister Sharif and his Muslim League are thus seen as the representatives of the Punjab.

The nuclear test site was located in Baluchistan, which forms 44 percent of Pakistan's territory but comprises only 4 percent of its population—a majority Baluch and minority Pakhtoon population. Chief Minister Sardar Mengal, an ally of Sharif, was incensed at the decision to hold the test on Baluchi territory without first telling the provincial leadership. Tensions between the BNP leadership and the central government escalated as the BNP and its student wing, the Baluch Student's Organization, denounced the nuclear tests, pointing out that the Sharif government has ignored Baluchistan's pressing developmental needs. In July, the BNP government was dismissed after it lost a no-confidence vote. According to Chief Minister Mengal, the assembly was manipulated by the central government in response to his government and party's opposition to the nuclear tests.

The testing of Pakistan's nuclear weapons capability has also been opposed by the Awami National Party (ANP), a predominantly Pakhtoon party that has considerable support in the North-West Frontier Province (NWFP). The ANP leadership believes that Pakistan's nuclear policy has promoted tensions between Pakistan and India that have endangered regional security. Also a former ally of the ruling Muslim League, the ANP has only recently parted ways with the central government over perceived incursions on provincial autonomy. Should the ANP succeed in replacing the Muslim League provincial government in the NWFP, the Sharif government will confront yet another ethnoregional

challenge to its political authority, including the direction of its nuclear policy.

Ethnic and regional opposition to centralized decision making and control, especially toward the central government's appropriation of the resources of the provinces, is also likely to grow should the international economic sanctions regime remain in force long enough to create serious problems for Pakistan's faltering economy. It is the economic implications of nuclear testing that have the most serious consequences for Pakistan's security and that have received the most attention in the internal debate on Pakistan's nuclear policy.

The United States sanctions imposed after the tests saw the Karachi stock exchange crash; it has lost \$5 billion of its value since the May tests and

has yet to recover. The value of the rupee continues to fall, adversely affecting industrial productivity. The government's attempts to expand its domestic resource base by measures such as additional direct taxes (including a 10 percent income tax surcharge) and an increase in fuel prices have contributed to inflation and rising social discontent.

The military. . . will continue to resist foreign restraints on Pakistan's nuclear weapons policy.

HAWKS, DOVES, AND NUCLEAR POLICY

Although influential segments of Pakistani public opinion have internalized official Indocentric justifications for the decision to test, the domestic euphoria that immediately followed the nuclear tests has dissipated. There is growing internal criticism of the government's decision to opt for overt nuclearization. Domestic opposition has been exacerbated by shortsighted government policies, such as the imposition of a state of emergency that included the suspension of fundamental rights at midnight on May 28, the day Pakistan conducted the first of its nuclear tests.

Another divide—that between nuclear hawks and doves—has also widened since the nuclear tests. Among the nuclear hawks, it was the military high command that was responsible for the decision to test and that continues to strongly support the retention and expansion of Pakistan's nuclear weapons capability. Elected governments will find it difficult, if not impossible, to oppose the military's nuclear preferences even if a change in nuclear ambitions is needed to avert an economic breakdown and social unrest. The military is thus unlikely to cede its authority over nuclear policy to civilian politicians, and it will continue to resist foreign restraints on Pakistan's nuclear weapons policy.

Yet Pakistan's decision-makers realize that economic sanctions have increased internal tensions and have created domestic constituencies supportive of tangible steps toward nuclear nonproliferation. This means that the main goal for Pakistan's establishment is to ease and ultimately reverse the economic sanctions regime but not compromise the nuclear weapons program.

Pakistani planners are also aware that Pakistan would be the loser in a no-holds-barred nuclear arms race with India. Should war break out again, asymmetries in conventional and nuclear capability would work to Pakistan's disadvantage. Pakistan's nuclear weapons establishment wants to retain the country's nuclear weapons capability while restraining India's.

To meet these policy objectives, the government has adopted a multipronged strategy. To prove that a nuclear-capable Pakistan is a responsible member of the international community and to meet United States demands for a regional dialogue for peace, Pakistan has reiterated its desire to resolve tensions with India so as to minimize the chances of nuclear conflict. Although there have been meetings between Pakistani and Indian policymakers—including the first and only face-to-face meeting between Prime Minister Sharif and Indian Prime Minister Atal Bihari Vajpayee in July—no progress has been made in reducing these tensions. Pakistan's insistence on a resolution of the Kashmir dispute as an essential precondition for normalized relations with India effectively retards progress toward that goal.

Pakistan uses the state of heightened tensions with India to justify its need for a countervailing nuclear capability. The government has continued to appeal to the international community, especially the United States, to intercede before the Kashmir dispute leads to an outbreak of conventional conflict that, Pakistan claims, could acquire a nuclear dimension. Although the United States and other foreign actors have not shown any interest in playing a mediatory role, they are more favorably inclined toward Pakistani calls for nuclear restraint between the two South Asian rivals.

Pakistan's support for the "stabilization" of the nuclear arms race in South Asia is clearly a bid to acquire *de facto* recognition of its nuclear weapons capability as well as international acceptance of an unverifiable freeze. At the same time, Pakistani proposals for other steps toward nuclear restraint, such as nonweaponization and nondeployment of Indian

and Pakistani nuclear weapons and missile systems, would also work to Pakistan's advantage in view of India's more developed nuclear infrastructure.

This is the strategy that Pakistan is pursuing in its negotiations with the United States on the nuclear issue, which includes the Pakistani decision to sign the CTBT while rejecting the NPT. According to Pakistani officials, the *quid pro quo* for these concessions should include the removal of economic sanctions, including an easing of United States restrictions on multilateral lending to Pakistan (which, at present, still cover all multilateral agencies except the IMF). In Pakistani perceptions, the advantages of signing the CTBT far outweigh the domestic costs. Signing the treaty would divert international attention from Pakistan to India; economic sanctions would be eased; Pakistan's nuclear weapons status would not be threatened; and the treaty's entry into force is uncertain.

Pakistan's success in obtaining international acceptance of its nuclear weapons status is largely dependent on the United States. Should the United States decide that Pakistani accession to the CTBT is sufficient reason to remove sanctions on all multilateral lending, then Pakistan's nuclear weapons program will continue to progress beyond its present nonweaponized status. However, should the United States insist on further progress toward nonproliferation before relaxing or removing bilateral and multilateral sanctions, then continued pressure on Pakistan's economy might force its policymakers to reconsider their nuclear ambitions.

Until economic sanctions are eased, Pakistan will remain on the edge of financial bankruptcy. If bilateral and multilateral sanctions are left in place, funding in the pipeline from sources such as the World Bank will end by 1999. Even if Pakistan avoids default by acquiring an adequate stopgap package from the multilateral agencies such as the IMF and the Islamic Development Bank, its present foreign exchange reserves are already insufficient even to purchase commodities such as fuel that are essential to keep its domestic economy afloat.

Appeals to national unity by invoking the Indian threat are unlikely to divert domestic attention from the harsh economic climate as well as the crisis of governance within. Facing a rejuvenated opposition and accused of failing to protect the country's internal and foreign interests, the Sharif government might just find itself a victim of the problems that have emerged because of its decision to test Pakistan's nuclear capability. ■

Malaysian economy for no good reason. Mahathir's statements, along with other signs that his government would not produce any serious policy responses to the spreading crisis, caused the pressure on Malaysia to increase. In Thailand, the crisis provoked infighting among coalition partners in the government, leading to the resignation of Prime Minister Chavalit Yongchaiyudh and the formation of a new government. The Chavalit government's initial response had been fragmented and contradictory, causing investor confidence in the country and the economy to drop to unprecedented levels.

INSTITUTIONAL FAILURES

The blame for the crisis spreads in several directions. The IMF and the World Bank are supposed to be watchdogs that alert governments and capital controllers to serious trouble on the horizon. But these institutions did not perform their jobs. The IMF failed to anticipate the Mexican peso fiasco. After that record bailout, a new "early warning system" to provide more extensive and timely information to policymakers and market actors was created. But the IMF provided no warnings in the weeks and months before July 2, 1997. In May the IMF had issued its annual *World Economic Outlook*, but it contained no clear signals indicating that Thailand or the other countries of Southeast Asia were in serious trouble. In response to these criticisms, the IMF claimed that it had known there were problems and that it had the internal documents to prove it. But as one observer asked pointedly, "Is secrecy the hallmark of an early warning system?"

Rating agencies like Standard and Poor's and Moody's have special access to corporate ledgers and boardrooms, yet businesses and banks that they had rated highly were crumbling under the weight of the region's financial crisis. Executives from these rating firms defended themselves by saying that as early as two years before the crisis they had already sent clear signals of problems, but that these concerns did not appear in their credit ratings. Why? Because, according to a top manager at Moody's, such signals are not supposed to appear in the ratings. "An institution run by a bunch of bureaucrats who couldn't run a corner candy store is not necessarily a bad credit risk," the manager pointed out. What matters is the willingness of governments to intervene and bail out management teams that the man from Moody's admits may in fact be "dumbos." A high credit rating does not mean that a company or bank is well managed. It means that despite "bad management, lax regulations, corrupt lending prac-

tices, and all other maladies," creditors will be paid because governments can be expected to provide public funds as backing. It happens that these rating agencies provide another measure, called financial ratings, and it is these that reflect what the agency thinks of a company's or bank's actual management and operation. But investors do not appear to consult these ratings.

The United States has also been criticized for the actions it took, or failed to take, that contributed to the crisis. One example was the almost reflexive response against the idea of setting up a regional monetary authority dominated by the Japanese. Especially when comparing the far more engaged United States response to the Mexican crisis, it is important to realize that the mostly counterproductive role of the United States government was more by neglect and distraction than by design. Because Mexico shares a long, porous border with the United States, and because immigration from Mexico is a sensitive political issue in Washington, the crisis that broke out late in 1994 received immediate and generous attention. The massive exposure of United States investors and bankers in Mexico also played an important role in the response from the Clinton administration. There were no parallel economic and political concerns regarding Asia. The crisis that began in Thailand and appeared to be spreading did not set off alarm bells in Washington.

Policymakers in the United States clearly misread the dimensions of the crisis, and certainly were very late in appreciating the negative impact it could have on the United States stock market and economy. By the time the Clinton administration began to engage the crisis more directly, it had a difficult time selling a deeper commitment to and intervention in Asia to the people and to Congress.

THE LARGER IMPLICATIONS

It is evident that the reemergence of global finance on a scale last seen at the end of the nineteenth century, in combination with late-twentieth-century technology and communications, is a volatile mix that wrenches governments and populations alike. United States Federal Reserve chairman Alan Greenspan noted in early 1998 that "these virulent episodes" seen in the Mexican and Asian crises may be "a defining characteristic of the new high-tech financial system." Greenspan admitted that no one fully understands the workings of that system. "At one point, the economic system appears stable," he said, while "the next it behaves

as though a dam has reached a breaking point, and water—confidence—evacuates its reservoir." Hinting at a crack in the dam known as neoclassical economic theory, Greenspan concluded: "We have observed that global financial markets, as currently organized, do not always achieve an appropriate equilibrium."

The political question is whether people want their fates to be determined so thoroughly, randomly, suddenly, and irrationally by the controllers of mobile capital. Although it will be a difficult struggle, with capital controllers putting up a fight, decisions can be taken to severely limit the power and influence of hot money and those who wield it. Many people around the globe feel immobilized by abstractions like "globalization." Yet it is not technology but the policies of states that confer power to those controlling and moving investment resources around the globe. In September 1998, Malaysia's Mahathir decided to pull the plug, impose capital controls, and try a strong dose of Keynesian stimulation in an effort to regain some semblance of control over the domestic economy. Where this bold move will take Malaysia is unclear, but supporters and opponents of free markets are watching closely.

On the question of political participation, arguments about the wonders of authoritarianism for rapid economic development have been floating around government, business, and academic circles for several decades. It is striking, however, that Thailand and South Korea handled their crises better than Indonesia, and that both managed peaceful changes in government leadership at the peak of economic disruption—and did so without violence and bloodshed. In Indonesia, the country faced a political impasse for months as President Suharto clung to power despite his age, poor health, and role in making the country vulnerable to the crisis in the first place. Suharto was finally deposed at the cost of more than 1,000 Indonesian lives. The relatively more participatory political systems in Thai-

land and South Korea allowed discredited leaders to be eased out and new leaders to take the reins and push through painful reforms with a legitimacy that was utterly lacking in the halfhearted efforts of Suharto's New Order regime and the B. J. Habibie government that followed.

It is not yet clear how this crisis will affect Asian countries or international capitalism. For the present, controllers of mobile capital are in charge. Either through the direct signals of their capital investments and withdrawals or through the spins and policy reforms pushed by organizations like the IMF or individuals like Alan Greenspan, the capital controllers are able to punish and reward countries they dislike or favor. Of course, along the way jobs and goods get created. But over time, and with successive crises, especially in finance, it becomes apparent that the motives of these investors have little to do with jobs and production. These are by-products of the profit-making drive, not its central concern or goal. Neoclassical economists consider this to be the genius of market systems. You do not have to want to create employment or develop a society: it happens as if by magic.

But it does not happen automatically or magically. Nor does it happen without a good dose of coercion, conflict, and now the constant threat of tremendous economic upheaval. Private investors are choosy. Some 80 percent of total private capital flowing to developing countries goes to just a dozen countries. This means that until major changes are made in how capital is controlled, countries will face intense pressures to be responsive to the demands of capital controllers. This is going to yield reforms in the short and medium term that could undermine much of what has long defined business-government relations across many parts of Asia. But even as these crises produce reforms favoring mobile capital, they could also strengthen the resolve of governments and their citizens over the medium and long term to gain more control over how capital is controlled. ■

regime shift the country is undergoing. The interconnected structure of institutions, norms, alliances, and policies that shaped the Japanese political economy from the 1950s through the 1980s is no longer working as smoothly as it once did; indeed, it is rapidly coming unglued. Yet replacement institutions, norms, alliances, and policies have yet to gain sufficient acceptance to supersede those of the past. Until this happens, Japan will find it increasingly difficult to move beyond the current crossroads, where its leaders now stand immobilized, and stride confidently in some path-breaking new direction.

THE ANCIENT RÉGIME

The main features of Japan's old regime are familiar. The conservative and pro-American Liberal Democratic Party (LDP), with its peculiar socioeconomic support base fusing both big and small business as well as organized agriculture, enjoyed an unparalleled 38 years of electoral and government dominance. The Liberal Democrats faced only a splintered collection of opposition parties, the largest of which was the committedly Marxian, anti-American, labor-based Japan Socialist Party (JSP, later the Social Democratic Party of Japan). Bureaucratic agencies enjoyed extensive regulatory powers over most spheres of public life, including the economic.

Most (though not all) sectors of the Japanese economy enjoyed insulation from foreign investment and import competition. A relatively small number of huge conglomerates (*keiretsu*) dominated the domestic economy. A web of formal and informal mechanisms linked scores of large corporations in different economic sectors to one another and to layers of subcontractors, distributors, and middlemen. Most larger companies relied on a core of (male) workers whose jobs were relatively secure and whose social welfare benefits and pay were closely tied to corporate profitability.

Conservative politics and cartelized, protectionist economics reinforced one another. From the early 1970s onward, a number of Japanese companies in consumer electronics, automobiles, and machinery gained sufficient international strength to generate highly positive trade balances for Japan. At the same time, improvements in manufacturing productivity, GNP, and living standards were typically double those of the rich democracies of North America and Western Europe, while social welfare

and defense expenditures remained vastly lower. Yet low social welfare spending did not prevent an overall economic equality that made Japan more like the Scandinavian social democracies than any other nominally conservative country.

The greatest virtue of the postwar Japanese system was its capacity to fuse corporate dynamism and rapid growth with social stability and high levels of equality. Japan more than matched the economic dynamism of Anglo-American capitalism yet spared most firms' workers the often high human costs of Anglo-American adjustment. At the same time, the Japanese system replicated much of the social cohesiveness of the continental European countries without their concomitantly burgeoning taxes and government budgets.

From the 1950s into the mid-1970s, the LDP and the economic ministries, most notably the Ministry of Finance and the Ministry of International Trade and Industry, cooperated to generate fiscal, monetary, and industrial policies that restructured the national economy and enhanced Japan's international competitiveness. Pork, protection, and privilege were hardly absent but they remained primarily subthemes unable to overwhelm the broader symphonic focus on rapid economic growth.

Ironically, the very longevity and adaptability of this Japanese system contributed heavily to the country's current problems and the procrastination in solving them. In the past, marginal tinkering typically enabled leaders to cope with most problems without challenging the underlying regime. Consequently, by the late 1980s and early 1990s, many parts of the system had developed tenacious institutional roots that made them extremely effective in resisting any adjustments that threatened their entrenched powers.

Simply stated, Japan's crisis can be traced to two related developments. First, some Japanese companies adjusted successfully to Japan's growing profitability and to changing world market conditions but far more did not. Second, Japanese politics was slow to reflect the changes generated by Japan's overall economic success and international power position.

National economic success, however, masked both trends. In corporate terms, Japan increasingly became two disconnected economies. As companies such as Toyota, Honda, Canon, Matsushita, Hitachi, and Sony catapulted to international market lead-

Japan's political and bureaucratic world continues to resist restructuring the economy in deep, fundamental ways.

ership, far more firms in cartelized and protected sectors such as cement, power generation, food services, construction, banking, brokerage, and insurance, devoid of the rejuvenating rigors of international competition, continued to depend for their profitability on government regulation, domestic capital, and home markets. Increasingly, firms in these latter sectors came to rely on politicians who, in exchange for increased votes and campaign contributions, provided various forms of assistance, including exceptions to complex economic regulations. The consequent high costs, obviously, were borne by consumers and intermediate corporate or individual users. But rapid national growth and continued jumps in living standards muted most complaints.

Economic growth simultaneously induced dramatic demographic changes. The proportion of the population dependent on farming and small business shrank from 50 percent in 1946–1948 to below 6 percent today, and birth rates fell and life expectancy rose, leaving Japan with fewer young workers and more elderly retirees. Living standards also improved, and three-quarters of the population became urbanized. Combined, these trends reshaped Japanese society—making most Japanese middle class, middle-aged, urban, and salaried.

International conditions also changed considerably. During the height of the cold war, the strategic and foreign policy goals of the United States gave Japanese exporters access to the American market without requiring Japan to open its home market or expand its military role. Only in the late 1970s and early 1980s did United States concerns about jobs and competitiveness lead American officials to make serious demands for enhanced access to Japanese markets.

By the late 1980s and early 1990s, Japanese institutions found it increasingly difficult to deliver their earlier blend of dynamism and equality. Despite the myriad corporate, socioeconomic, and international changes occurring at home and in Japan's external environment, key Japanese political and economic institutions that had once been the crucibles of creative adjustment now inhibited flexibility, dynamism, and movement in new directions. These rigidities stymied the critical process that Joseph Schumpeter long ago identified as "creative destruction."

It was in the 1989 elections for the Diet's upper house that the complex tensions challenging the old regime first climaxed politically. Economically, they burst into undeniability with the collapse of the economic bubble a year or so later.

THE BUBBLE BURSTS. . .

The Japanese bubble lasted roughly from 1985 to 1990. At least two of its elements are important. First, the Japanese yen had accelerated greatly in value after the 1985 Plaza Accord (the agreement by the United States, Japan, West Germany, France, and Britain to pursue a collective lowering of the dollar's value). In response, the Ministry of Finance, fearing the possible negative effects on Japanese exports and worried about possible electoral retaliation against the LDP if the economy slowed, ordered the Bank of Japan to open the monetary floodgates while the ministry itself injected massive amounts of fresh spending into the economy through fiscal packages and the expanded investment of postal savings funds. Predictably, as the prime interest rate was lowered to a postwar low of 2.5 percent, asset markets in both stocks and land jetted upward.

Second, the rising yen and a liberalization of Japanese capital markets eroded prior linkages between major manufacturing firms and financial institutions. Many Japanese-owned firms developed production (and capital-raising) operations overseas while others began financing their activities through bonds and foreign capital markets. Cut off from their normal sources of income (highly competitive corporate borrowers) and yet flush with cheap capital, Japanese financial institutions began lending money to ever more dubious borrowers and providing less and less oversight. Smaller subsidiaries, fiscally marginal firms, land speculators, real estate companies, nonbank financial intermediaries, politicians, and members of organized crime families were among those who suddenly found bank loans thrust their way. Stock and real estate speculations became prime uses for the new easy money and the prices for both ratcheted steadily skyward.

In short, the late 1980s witnessed a massive increase in the value of assets such as stocks and land and the rising paper value of these assets then became collateral in a growing spiral of borrowing and speculation. Previously cautious firms engaged in more dubious financial speculations. Wider socioeconomic gaps opened between those who owned stocks or land and those who did not. Yet these and other underlying divergences in Japan's economy remained concealed behind the overweening triumphalism that surrounded the country's apparently unstoppable prosperity and its "new economic model." Unseen by most was the fragility of this new model. Instead, seduced by the visions

of unstoppable profitability and a giddy citizenry, neither the banks, the bureaucrats, nor the LDP were anxious to apply the brakes. Like Icarus, the Japanese economy soared ever closer to the sun, lofted by a self-congratulatory euphoria.

When Bank of Japan Governor Mieno finally punctured the bubble with a sharp rise in the national discount rate in 1989–1990, asset prices collapsed dramatically, setting off what proved to be a decade of downward spiraling economics that culminated in today's recession. As stock and land prices plummeted, the collateral underlying the riskiest loans evaporated, leaving banks and financial institutions with trillions of yen in unrecoverable debt. As banks tried to call in loans, borrowers sold stock, land, and other assets, triggering further downward spirals. Public exposure of imprudent investments and corruption by brokerages led to their loss of both clients and profitability. By the mid-1990s, it was clear that Japan was in the midst of a structural financial crisis and a mounting liquidity shortage. For virtually the entire decade, political, financial, and bureaucratic officials who attempted to "solve" these problems did so wearing the institutional and policy blinders of the old regime. Not surprisingly, they usually found each effort stymied by new revelations about how much more the economic cancer had metastasized.

Political tensions rose in parallel to the economic downturn, reflecting the widening differences in economic interests. The LDP had long avoided serious internal divisions over economics by successfully accommodating a heterogeneous alliance that bridged the gap between Japan's most and least productive sectors. That alliance held together largely because the exceptional economic successes of the former allowed for politically brokered side payments to the latter. Thus, the high annual growth rates catalyzed by export successes in manufacturing provided government revenues to support not only high-tech research and development programs but also extensive subsidies for agriculture and the underwriting of expensive public utilities and transportation. Rising personal incomes meant greater total tax revenue for government coffers, effectively underpinning costly loans to small businesses and expensive public construction projects. As long as high growth continued and pressures for deregulation and decartelization were weak, the LDP's economically irrational alliance retained its political viability. Conservative politicians remained insulated from making harsh policy choices that systematically favored one group at the expense of the other.

...WITHOUT THE POLITICAL HISS

By the late 1980s, the underlying policy tensions between Japan's internationally competitive and noncompetitive sectors had become politically inescapable. Largely in response to foreign pressures, but also in an effort to enhance its electoral appeal among urban residents, the LDP, in the middle and late 1980s, began to liberalize the market for agricultural goods, including beef, citrus fruits, and—albeit tentatively—rice. In late 1988, a government advisory committee also proposed revisions in laws that had long protected small shopkeepers from competitive superstores. In 1989, the government introduced a 3 percent consumption tax that made it tough for small shopkeepers and farmers to evade taxes. Meanwhile the nation's major business federation, Keidanren, cut off its previously automatic funding to the LDP, thereby expressing its own frustration with LDP economic policies. The cumulative result was an anti-LDP revolt by some of the party's core supporters; indeed the National Association of Agricultural Cooperatives seriously considered abandoning the LDP and forming a Farmers' Party. In the upper house election of 1989, voter preferences by farmers and small business owners shifted more than in any previous election. For the first time since its formation in 1955, the LDP no longer enjoyed control of both houses of parliament.

During this period the LDP was also rocked by a host of political scandals linked largely to the kinds of corporate bribery for regulatory exceptions previously noted. It became increasingly evident that the party could no longer guarantee the Japanese people a strong economy, nor could it ensure a successful electoral career for aspiring young conservatives. Party members divided over how best to adjust economically and institutionally. Beginning in 1993, the LDP went through a sequence of splits, with many younger, more urban, and reformist LDP members leaving, ultimately depriving the party of its majority in the lower House of Representatives as well.

Since the 1993 LDP split, Japan's party system has gone through a whirlwind of combinations and recombinations so that it now bears little resemblance to the party system of 1965 to 1985. Only the LDP and the Japan Communist Party (JCP) retain their earlier labels, and the LDP has a much narrower economic base than before. No longer is there a political party of organized labor, or any party hostile to continued United States security ties with Japan (except for the JCP, although it has

agreed to "suspend" its prior opposition). Instead, a flurry of small new parties bid for various slices of urban, consumerist, pacifist, and other voter blocs.

But these party recombinations still have not led to any division reflective of the growing dualism in the economy or affording clear choices about Japan's future economic direction. There have been several false starts toward such a division, however. For example, the eight-party coalition government that replaced the LDP in 1993 made vague promises of internationalization and more economic openness and pro-urban policies, but it lacked a cohesive policy agenda. Prime Minister Hosokawa Morihiro did force through an important new electoral system, but, implicated in a financial scandal, he resigned after only eight months in office, thus ending one possible mustering of energy to pursue a new economic direction.

Simultaneously, Ozawa Ichiro led a breakaway group that promised, among other things, a less protected and more open economy. This group eventually crystallized as the New Frontier Party (NFP). It gained allies within many government agencies. As an August 1996 survey of parliamentarians in the Japanese journal *Bungei Shunju* showed, the NFP served as a temporary rallying point for parliamentary deregulators and internationalists while the LDP's members disproportionately favored continued regulation and protection. The NFP also proved to be short-lived, leaving antiprotectionist and deregulatory forces to go through another round of fragmentation and recoherence.

By 1996, the LDP had regained a majority in the lower house and controlled a noncoalition cabinet under Prime Minister Hashimoto Ryutaro. But by then the party had moved further away from its prior "catch-all" quality toward increased support for "core" protected constituents, despite efforts by some of its backbenchers to reduce such dependency and embrace new constituencies linked to more market-compatible economics. Tensions within the LDP were evident in the Hashimoto government's inability to generate any effective and consistent economic policy. Instead, it seesawed between fiscal stimulation based on public works, construction, and rural assistance, and fiscal tightness and a rise in the consumption tax. At one time it hinted that it would allow troubled financial institutions to fail but just as quickly it shifted to the virtually unlimited use of public funds to prevent such failures.

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Electoral frustration with the Hashimoto government's lack of direction crystallized in the upper house elections of July 1998. Voter turnout jumped from 44.5 percent in the 1995 elections to 58.8 percent. The LDP won only 44 of 126 seats, none of which came from Japan's largest cities. The major victors were the Democratic Party of Japan (DPJ), the JCP, and independents.

After the election, the opposition mobilized around DPJ leader Kan Naoto, forcing a sequence of compromises to the LDP's proposed plans for financial reform, the essence of which involves restricting the use of public monies to bail out failing banks; a temporary nationalization of the insolvent Long-Term Credit Bank; no bailout for over-loaned agricultural co-ops; and hints of a reduction in the Ministry of Finance's regulatory powers. Tellingly, the opposition was joined in its efforts by many younger members of the LDP, such as Shiozaki Yasuhisa, Ishihara Nobuteru, and Nemoto Takumi, hinting at the LDP's internal divisions over future economic directions.

The ability of an upper house opposition to force compromises onto a reluctant LDP should be neither under- nor overestimated. Indeed, by late October 1998 the LDP had split the opposition by cutting deals with several of the opposition parties and passing a less transparent \$500 billion bank bailout that isolated the formerly pivotal DPJ. To date,

a new electoral system, party reorganization, and business and voter frustrations have not generated a political party with sufficient muscle and cohesion to provide a viable alternative to the LDP. Nor have the LDP and the bureaucratic elite been sufficiently threatened to abandon the long-standing roots of their own power. As a result, Japan's political and bureaucratic world continues to resist restructuring the economy in deep, fundamental ways.

THE REALITIES OF ECONOMIC CHANGE

Despite the current political gridlock, economic changes have gained momentum. For example, the keiretsu are no longer as monolithic or as integrated as before. The main banks are losing their roles as the principal providers of capital to large firms, while keiretsu cross-holding of stocks has diminished. The debt-to-equity ratio of new borrowings for Japanese firms was nearly 90 percent in 1965; by 1995, this had fallen to 69.4. Bond issues, reliance on equity, foreign borrowing, and the like have cor-

In mid-1997, to 63.7 percent as of mid-1998, a drop that reflects the plummeting demand and credit crunch South Korean firms face. Although foreign currency reserves have increased from \$8.9 billion on the eve of the crisis in early fall of 1997 to more than \$40 billion, this growth is almost totally due to the collapse in imports (which in turn is largely the result of the fall in investment) rather than a rise in exports. Despite the earlier predictions of a quick export-led recovery following the \$57 billion IMF package agreed to in November 1997, exports fell between May and August, and the country is bracing for the first year-on-year fall in exports since 1958. Given the continuing turmoil in the international financial market, whatever little prospect there was for an early recovery in South Korea seems to be quickly receding.

medicine to cure the country's economic ills, they argued, was to ditch the defunct state-directed economic system and create in its place a 'genuine' market economy in the Anglo-American mold through the extensive liberalization of finance, international trade, and the labor market. Was this analysis correct?

The South Korean crisis is essentially a financial crisis rather than one created by the "real economy"—although a severe financial crisis can easily turn into a crisis of the real economy, as has happened in South Korea and other Asian countries during the last several months.

Most of South Korea's manufacturing firms make products that sell in even the most demanding markets—if the exchange rate is right (a point to which we will return). In the two years before the crisis, the won, the Korean currency, was overvalued probably by about 10 percent, but even then, on the eve of the crisis, the current account deficit was just over 3 percent of GDP. Yet Thailand, Malaysia, and Mexico had current account deficits equivalent to 8 to 10 percent of GDP before their recent crises, and in previous downturns, such as that of 1980, South Korea had current account deficits approaching 9 percent of GDP. Furthermore, most foreign loans financed investments in export sectors rather than

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respondingly increased, especially for firms manufacturing internationally tradable goods. Meanwhile, as late as 1987, approximately 72 percent of the Tokyo Stock Exchange capitalization involved cross-holdings of shares by related companies. By 1996, this had fallen to 60 percent, and it was dropping at the rate of about 4 percent per year.

Also sharply diminished has been Japan's previously single-minded orientation toward the manufacture and export of industrial goods. By the 1990s, large numbers of Japanese-owned manufacturing firms had moved their activities away from production in and export from Japan to embrace far more global production and investment strategies. Symbolically, by 1995, Japanese-owned firms were manufacturing more overseas than they exported from the home islands.

As a result, previously tight connections between large Japanese firms and their subcontractors and distributors have been loosened, reliance on part-time and contract workers has risen, and the job security of many long-term employees has decreased. In short, numerous pillars of Japan's old economic structures are eroding.

Nowhere is this erosion more important than in the increased penetration of the Japanese market by foreign firms. This has occurred in areas from food service and catalog sales

to March 1998, some 30 property-related loan packages with a face value of \$21.6 billion were bought by Western investors, at an average price of about 10 cents to the dollar.

Although Japan remains the industrialized country with the lowest per capita foreign direct investment, the centrality of these foreign firms with wildly different performance standards is beginning to force serious changes across a range of existing Japanese practices, including employment, stock options, performance-linked salaries, pricing, flexible commissions, higher rates of return, 24-hour ATMs, derivative products, and the cost of gasoline. Pressures will continue to mount for changes in many of Japan's long-standing but economically inefficient practices.

THE CHALLENGE

Japan is in the midst of a struggle over how to move beyond the arrangements that served it so well for more than 30 years but are now proving incapable of delivering the previous mix of economic dynamism and social egalitarianism. The battle is being played out most acutely along the fault line between the strikingly different economic interests of its least dynamic and most protected sectors, most of which have strong allegiances

THE MONTH IN REVIEW

October 1998

INTERNATIONAL

Ecuador-Peru Dispute

Oct. 26—In Brasília, Presidents Alberto Fujimori of Peru and Jamil Mahaud of Ecuador sign a peace treaty ending a border dispute that has led to intermittent fighting between the 2 countries since the early 1940s; the treaty calls for 4 guarantor nations, the US, Brazil, Chile, and Argentina, to outline the disputed border and for the border to be opened and trade and development links established.

International War Crimes Tribunal for Rwanda

Oct. 2—Jean-Paul Akayesu, the former mayor of the town of Taba, in central Rwanda, who was found guilty of 9 counts of genocide in September, is sentenced to 3 consecutive life terms in prison.

Middle East Peace Process

Oct. 23—After 9 days of talks at the Wye Plantation in Wye Mills, Maryland, Palestinian Authority (PA) President Yasser Arafat and Israeli Prime Minister Benjamin Netanyahu sign a US-brokered peace agreement; under the accord, Israel is to withdraw troops from 13 percent of the West Bank over 12 weeks, and 14 percent of the West Bank currently under joint Palestinian-Israeli control is to revert to full Palestinian control, the CIA is to play an unspecified security role in implementing the agreements, and the PA is to fight Palestinian terrorism and remove language from its charter calling for the destruction of Israel; the agreement builds on the Israeli-Palestinian Oslo accords and is to take effect as soon as it is ratified by each country's government; yesterday, King Hussein of Jordan joined the talks to encourage both sides to reconcile and produce an accord.

United Nations

Oct. 14—In a record vote of 157 to 2, the General Assembly approves a resolution that calls for an end to the US economic sanctions on Cuba; the 2 objecting countries were the United States and Israel, 12 countries abstained.

Oct. 20—The General Assembly's credentials committee recommends a deferral of the decision as to whether Afghanistan's ruling fundamentalist Islamic Taliban or the incumbent delegation opposed to the Taliban will occupy Afghanistan's seat in the assembly; the assembly has occupied annual deferrals of the decision since the Taliban's ouster of the government of secular President Burhanuddin Rabbani in 1996.

AUSTRALIA

Oct. 3—In national elections today, the governing Liberal Party-National Party coalition wins reelection with 80 seats in the lower house of parliament; the Australian Labor Party (ALP) takes 67 seats and the Independents 1, in the upper house, the Liberals-Nationals take 35 seats, the ALP 29, and other parties 12, John Howard will remain prime minister

AZERBAIJAN

Oct. 15—Official preliminary election results show that President Heydar Aliyev of the New Azerbaijan Party has won reelection to a 5-year term with 76% of the vote; Eltar Mammedov of the National Independence Party came in 2d with 12%

BRAZIL

Oct. 12—Final results of the October 4 presidential election show that President Fernando Henrique Cardoso of the Social Democracy Party won reelection with 53% of the vote and Workers' Party candidate Luis Inácio "Lula" da Silva finished 2d with 31%

Oct. 28—The government introduces an \$80 billion package of spending cuts and tax increases over 3 years, Brazil's budget deficit is currently running at \$55 billion, or 7% of its GDP, and there has been pressure on the country to devalue its currency.

CHINA

Oct. 1—In New Delhi, India, the Tibetan government-in-exile acknowledges that it received \$1.7 million a year from the CIA in the 1960s to train volunteers and support guerrilla operations against China.

Oct. 5—At the UN in New York, China signs the International Covenant on Civil and Political Rights, a 1966 treaty establishing people's right to self-determination, freedom of movement, religion, and expression, and freedom from torture and cruel or degrading punishment; the treaty is 1 of 2 fundamental international human rights accords; China has signed but not ratified the other, which covers economic, social, and cultural rights.

Authorities detain human rights activist Qin Yongmin for 3 hours and reportedly threaten him with prosecution if he persists in attempting to register a human rights monitoring group.

Oct. 14—Koo Chen-fu, a senior member of Taiwan's governing Nationalist Party, arrives in Shanghai for talks on improving relations between China and Taiwan; Koo is the highest-ranking Taiwanese official to visit mainland China since the 1949 revolution

Oct. 28—The *New York Times* reports that in the past several days the government has closed an independent Beijing think tank and detained or questioned more than 20 democracy advocates.

COLOMBIA

Oct. 18—A bomb rips open a major oil pipeline near the village of Machuca, near Segovia, in the northern province of Antioquia, at least 45 people are killed and more than 70 injured in the resulting fire; police officials blame the attack on the National Liberation Army, the country's 2d largest leftist guerrilla group, which has carried out a reported 125 bombings in the past 2 years on another major pipeline

CONGO

Oct. 10—Tutsi-led rebels backed by Rwanda and Uganda shoot down a Boeing 727 jet carrying 40 people outside the town of Kindu, in eastern Congo; the rebels, who have been attempting to oust President Laurent Kabila since August, later claimed that the jet was taking government troops to the strategically important Kindu airbase

Oct. 12—Rebel forces seize control of Kindu, Kabila's forward base and last stronghold in eastern Congo.

GEORGIA

Oct. 19—Some 200 rebel soldiers loyal to the late president, Zviad Gamsakhurdia, clash with government troops near the

central-western city of Kutaisi, the country's 2d largest; 1 soldier and 4 rebels are killed; the rebels are forced to retreat to their garrison in the western town of Senaki.

GERMANY

Oct. 20—The new coalition government of the Social Democratic Party and the Greens reaches a final agreement on legislative plans, including proposals to simplify the tax code, wean the country from nuclear power, strengthen social welfare programs, and raise gasoline taxes; the parties also agreed to convene a series of roundtable negotiations in which government officials and industry and union leaders would try to hammer out measures to create jobs; industry leaders have threatened to boycott the talks.

GUINEA-BISSAU

Oct. 21—Government troops clash with mutinous soldiers for a 4th day in the eastern town of Bafata, the fighting marks the collapse of a nearly 3-month cease-fire

Oct. 23—Rebel forces agree to a 48-hour cease-fire proposed by the government to allow talks; Senegal has recently sent troops to back the government.

INDIA

Oct. 8—Land mines kill at least 16 policemen and wound 15 in the remote Bastar region of the central state of Madhya Pradesh, the mines reportedly were laid by the Naxalites, a Maoist guerrilla group that controls large forest tracts in central and eastern India and has been waging an armed campaign and demanding redistribution of land for 3 decades

Oct. 22—The governing Hindu nationalist Bharatiya Janata Party withdraws a controversial proposal to make the study of Hindu scriptures compulsory for all schoolchildren; the proposal caused a furor at a conference of state education ministers today in New Delhi, with opponents saying it represented an assault on minorities and on the secular character of the Indian state

Oct. 27—Indian military officials say their troops turned back a Pakistani assault on a Kashmir border post yesterday; Pakistani officials dismiss the report

INDONESIA

Oct. 12—Tens of thousands of protesters gather in East Timor to demand the resignation of the territory's governor, Abilio José Soares, who threatened earlier this month to fire any civil servants refusing to endorse an Indonesian plan of autonomy for the former Portuguese colony

Oct. 28—In Jakarta, at least 8,000 students stage a sit-in to demand that President B. J. Habibie resign and stand trial for corruption

IRAN

Oct. 25—Results from yesterday's elections show that conservative clerics won at least 70 of the 86 seats in the Assembly of Experts, which is charged with appointing the country's supreme leader; many left-leaning and reformist candidates had been disqualified before the elections by the country's election "watchdog," the Council of Guardians, turnout was less than 46%, according to the Interior Ministry.

IRAQ

Oct. 31—The government suspends all cooperation with international arms inspectors and shuts down their long-term monitoring operations immediately; the International Atomic Energy Agency will be allowed to operate in Iraq, but only to

perform nonintrusive monitoring with no spot inspections; the measure effectively ends almost all surveillance of Iraq's weapons programs; the UN Security Council holds an emergency meeting and "deplores" the decision; Iraq has been calling since November 1997 for the UN to lift economic sanctions on the grounds that they are causing poverty and malnourishment among the Iraqi people.

ISRAEL

Oct. 9—Prime Minister Benjamin Netanyahu appoints hard-liner Ariel Sharon, the minister of national infrastructure and former defense minister, to be Israel's foreign minister

Oct. 19—Police capture a Palestinian man who carried out a grenade attack earlier today in the south-central town of Beersheba, wounding 67 people; the attack comes on the 5th day of Israeli-Palestinian talks taking place in the US.

ITALY

Oct. 9—Parliament votes no confidence in Prime Minister Romano Prodi's government, 313 to 312; the collapse of the 2-year-old center-left coalition was triggered several days ago when Communist Refounding leader Fausto Bertinotti announced that his party would vote against the 1999 budget and withdraw its support from the government

Oct. 16—President Oscar Luigi Scalfaro asks Massimo D'Alema, a former Communist and the leader of Democrats of the Left, Italy's largest leftist party, to form a government.

JAPAN

Oct. 8—In a meeting with visiting South Korean President Kim Dae Jung, Prime Minister Keizo Obuchi offers an official apology to Korea for Japan's 35-year occupation of the Korean Peninsula, which ended in 1945.

Oct. 12—The governing Liberal Democratic Party and opposition parties agree on a plan to provide some \$400 billion or more of public money to the country's ailing banks, the announcement of the plan, which requires parliamentary approval, sparked a rise in stocks today of over 5%.

Parliament approves legislation allowing the government for the 1st time to nationalize or liquidate large, failing banks, or else turn them into publicly owned "bridge banks."

Oct. 22—The government agrees to resume financing nuclear power plant construction in North Korea as part of a deal to persuade the North Korean government not to develop nuclear weapons, Japan had put its \$1 billion contribution on hold after North Korea fired a rocket over Japan on August 31

LEBANON

Oct. 15—Parliament unanimously elects General Emile Lahoud, the commander of the army, as the country's 1st new president since civil war ended in 1990.

LESOTHO

Oct. 13—The government and opposition parties agree on a transitional structure to prepare elections to be held in 18 months; last month, a joint intervention force from South Africa and Botswana battled opposition Lesotho soldiers and civilians when it invaded the kingdom on behalf of the Southern African Development Community to prevent a coup; opposition parties had been calling on the government of King Lethie to publish the results of an independent investigation into allegations of vote-rigging by the ruling government party, the Lesotho Congress for Democracy, in elections held in May.

Oct. 30—South Africa announces that it is withdrawing 1,400 soldiers from Lesotho, leaving 2,100 in place.

MALAYSIA

Oct. 25—Security forces clash with protesters supporting Anwar Ibrahim, who was dismissed as finance minister and deputy prime minister last month and then arrested on sodomy and corruption charges

Oct. 28—Reuters news agency reports that the police have arrested 268 people since the October 25 clash.

MEXICO

Oct. 18—The rebel Zapatista National Liberation Army (EZLN) says it wants to restart peace talks with a multiparty commission of lawmakers; the talks broke down more than 2 years ago after the government backed away from an agreement granting greater autonomy to Mexico's Indians; the EZLN staged a brief armed uprising in Chiapas in 1994 to demand Indian rights, land reform, and democracy.

NIGERIA

Oct. 5—*The New York Times* reports that ethnic fighting since late September in the southwestern Akpata region has claimed hundreds of lives and displaced thousands of people; the ethnic Ijaws, whose homeland is in the oil-rich Niger delta, and the ethnic Iyees, a clan of the Yoruba tribe that dominates the southwestern part of the country, have been fighting over oil rights after it was rumored that oil companies were moving into Akpata.

Oct. 14—Nigeria's most prominent exiled dissident, Nobel literature laureate Wole Soyinka, returns to the country 4 years after fleeing the military dictatorship of former President Sani Abacha; last month Soyinka met with Nigeria's military ruler, Abdulsalam Abubakar, who asked him to return home

Oct. 29—The EU decides to partially lift sanctions on Nigeria as a gesture of good faith in response to the government's commitment to return the country to civilian rule in May 1999; some sanctions, including an arms embargo and a ban on development aid, will remain in place until elections are held.

PAKISTAN

Oct. 7—Prime Minister Nawaz Sharif replaces the head of the armed forces, General Jehangir Karamat, with Pervez Musharraf, another army commander; Karamat had criticized Sharif's government and recently proposed the creation of a national security council through which the military could have a role in policymaking

Oct. 9—The National Assembly votes, 151 to 16, to amend the constitution to give the government power to impose laws derived from its interpretation of the Koran and to override the "constitution, any law or judgment of any court"; to become law the amendment must win a two-thirds vote in the Senate, which unlike the assembly is not dominated by Sharif's Pakistan Muslim League

Oct. 18—After 3 days of talks in Islamabad, Foreign Ministers Krishnan Raghunath of India and Shamsah Ahmed of Pakistan depart without a formal agreement on reducing military tensions between their countries or resolving the dispute over Kashmir; further talks are scheduled for February in New Delhi

PALESTINIAN AUTHORITY

Oct. 29—In the Gaza Strip, a Palestinian suicide bomber kills 1 Israeli soldier and wounds 3 others when they intercept his attempt to blow up a bus carrying Israeli settler schoolchildren; Palestinian Authority President Yasser Arafat later condemns the attack and places Sheikh Ahmed Yassin, the spiritual leader of the militant Palestinian Islamic group

Hamas, under house arrest; Hamas is believed to be behind the attack.

RUSSIA

Oct. 7—Communists and trade unionists stage a nationwide strike to protest President Boris Yeltsin's economic policies; in Moscow, thousands of protesters march on the Kremlin to demand Yeltsin's resignation.

Oct. 10—Russia reports its worst agricultural harvest in 45 years; the government asks the United States for humanitarian aid

Oct. 14—Prime Minister Yevgeni Primakov announces that the government has created a \$600 million emergency food reserve that could meet the needs of 1/3 of the Russian population for 2 weeks.

Oct. 23—The government lowers taxes on imports of meats, milk, and other staple foods in an effort to avoid shortages this winter.

RWANDA

Oct. 9—Rwanda Radio reports that the justice ministry is set to order the release of some 10,000 people held in connection with the 1994 genocide whose files contain no solid evidence against them; approximately 120,000 people are in custody on charges of participating in the Hutu-led genocide, which killed 500,000 or more people, mostly Tutsis

Oct. 19—Aid agencies report that hundreds of thousands of Rwandan civilians have been displaced in the last few weeks in the northwestern regions of Ruhengeri and Gisenyi, and that approximately 478,000 of them are currently living in makeshift refugee camps; the director of the Irish aid agency Concern in Rwanda, Anne O'Mahony, says the civilians are fleeing Hutu rebels who played a key role in the 1994 genocide.

SIERRA LEONE

Oct. 19—In Freetown, the capital, a firing squad publicly executes 24 soldiers for their part in the May 1997 coup led by Johnny Koroma; the junta that took power was subsequently ousted by Nigerian-led Ecomog (the military branch of ECOWAS, the Economic Community of West African States) forces in February 1998.

SOUTH AFRICA

Oct. 29—The Truth and Reconciliation Commission (TRC) releases its final report on the country's apartheid past to President Nelson Mandela; the report details atrocities committed by the apartheid regimes and by anti-apartheid groups; the report does not include sections implicating the country's last apartheid-era president, F. W. de Klerk, of criminal activities because de Klerk recently initiated legal action against the TRC's findings that could have delayed the report's release.

SUDAN

Oct. 12—The government announces that it is extending a cease-fire begun in July with the rebel Sudan People's Liberation Army in the southwestern region of Bahr el Ghazal for 3 months; the rebel group is also extending the truce; the cease-fire is intended to allow UN food relief to reach the hunger-stricken region; fighting between the mainly Arab government's forces and the mainly African rebels in the region over the last year, along with drought, has prevented civilians from farming.

SWITZERLAND

Oct. 20—Swiss officials announce that they have seized more than \$90 million from Raúl Salinas de Gortari, the brother of

former Mexican President Carlos Salinas de Gortari, after a police investigation concluded that the money, in Swiss bank accounts, had been paid to Salinas for protecting drug shipments through Mexico to the US, Switzerland requested today that Britain seize an additional \$23.4 million that Salinas had deposited there.

TURKEY

Oct. 1—President Suleyman Demirel denounces Syria's "policy of hostility against Turkey"; tensions between the 2 countries have risen recently over Syria's alleged support of the Kurdistan Workers Party (PKK), a guerrilla group that has fought a separatist war for 14 years in southeastern Turkey, as well as over Turkey's military cooperation with Israel.

Oct. 20—Prime Minister Mesut Yilmaz says Syria has agreed to drop its support of the PKK and to allow Turkey to verify that it has done so.

UNITED KINGDOM

Great Britain

Oct. 17—British authorities announce the arrest in London yesterday of General Augusto Pinochet, the former ruler of Chile, for possible questioning by Spanish prosecutors in the presumed murders of hundreds of Chilean and Spanish citizens; an estimated 3,000 or more people were killed for political reasons under the rule of Pinochet's rightist military government from 1973 to 1990. Pinochet, in London for surgery, enjoys immunity from prosecution in Chile but could face charges elsewhere for crimes against humanity.

Oct. 28—The High Court backs Pinochet's claim of diplomatic immunity from arrest and extradition, but orders him detained pending appeal; the court found that Pinochet could not be prosecuted because he was head of state at the time the crimes in question were committed.

Northern Ireland

Oct. 16—The Nobel Committee awards the 1998 Nobel Peace Prize to John Hume, the Catholic leader of the Social Democratic and Labor Party, and David Trimble, the Protestant leader of the Ulster Unionists and first minister in the new provincial government, for their efforts to bring about the Good Friday peace accord for Northern Ireland.

UNITED STATES

Oct. 4—The House of Representatives votes, 360 to 38, to pass the Iraq Liberation Act, which would permit the president to spend up to \$97 million on arms and other assistance for Iraqi rebel groups attempting to replace Iraq's president, Saddam Hussein, with a democratic government; Senate action is pending.

Oct. 8—The House votes, 258 to 176, to launch a broad, open-ended inquiry into whether President Bill Clinton committed impeachable offenses as alleged by independent counsel Kenneth Starr, in his report submitted to the House September 11. Starr argued that Clinton committed 11 impeachable offenses arising from his 1995–1997 affair with a White House intern, Monica Lewinsky.

Oct. 10—The House votes to approve final passage of the International Religious Freedom Act; yesterday, the Senate voted unanimously, 98 to 0, to approve the act, which, among other things, calls for the State Department to conduct annual reviews of religious freedoms, as it does of human rights; based on those reports, the president would be able to impose

economic sanctions on countries in which religious freedom was found to be suppressed, the president can waive sanctions if he finds they conflict with national interests.

Oct. 23—In Amherst, New York, doctor Barnett Slepian, an abortion provider, is killed by an unidentified sniper; Slepian is the 3d abortion provider killed by presumably anti-abortion attackers in the United States since 1993; no group claims responsibility.

YUGOSLAVIA

Serbia

Oct. 1—The UN Security Council condemns the atrocities committed against ethnic Albanian civilians in the Serbian province of Kosovo late last month, including the massacre by Serbian troops of a total of 31 people in attacks on several villages on September 26, in the past several months a Serbian offensive has badly hurt the guerrilla Kosovo Liberation Army (UCK), which wants independence for Kosovo's mainly ethnic Albanian people; some 300,000 civilians have become refugees during the fighting.

Oct. 9—The UCK announces a cease-fire "out of respect" for US-led negotiating efforts in Belgrade and Pristina; the talks are aimed at finding a peaceful solution and averting threatened NATO air strikes against Yugoslav forces if they do not halt their attacks on ethnic Albanian civilians.

Oct. 12—Meeting in Brussels, NATO officials approve military action against Yugoslavia if deemed necessary at any time beginning October 16; the officials formally transfer command of more than 400 aircraft and other matériel from member countries to NATO's commander in Europe, General Wesley Clark, an American.

Oct. 13—After 9 days of negotiating, US special envoy Richard Holbrooke announces an agreement in Belgrade with Yugoslav President Slobodan Milosevic under which 2,000 international observers, organized by the Organization for Security and Cooperation in Europe and aided by NATO reconnaissance flights, will monitor Serbian troop reductions in Kosovo to pre-crisis levels, as called for in a September 23 UN Security Council resolution; the agreement also calls for local elections in Kosovo and amnesty for suspected ethnic Albanian rebels.

Oct. 14—The government shuts down 2 newspapers, *Danas* and *Dnevni Telegraph*, for "fomenting defeatism, panic, and fear" by not taking the government line in the face of threatened NATO attacks, the closings are the latest in a 2-week-old crackdown on independent media in Serbia.

Oct. 16—NATO extends its deadline for Milosevic to withdraw at least 4,000 soldiers and 3,000 police officers from Kosovo to October 27 (the original deadline was tonight); if he complies Milosevic will still have more than 12,000 army troops and 6,000 police officers in the province, according to US intelligence.

Oct. 27—NATO postpones indefinitely any immediate threat to bomb Serbia, concluding that a major troop withdrawal begun yesterday has brought Milosevic into "substantial compliance" with NATO demands.

ZIMBABWE

Oct. 30—President Robert Mugabe announces a policy under which white-owned farms will be resettled by blacks and paid for later; Mugabe says that the previous policy, which entailed identifying, appraising, and paying for each farm, was taking too long; the government plans to acquire 12.5 million acres from commercial farmers, mainly whites, to give to 100,000 landless black families over a period of 5 years.

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PERSPECTIVES

THE SCIENTISTS SPEAK

Excerpts from a May 17 press conference with Indian nuclear scientists.

Is India holding nuclear weapons?

Dr. Kalam: The prime minister has said India is a nuclear weapon state. Please refer to article 9 of the nuclear Non-Proliferation Treaty.

When were you told to go ahead with the tests?

Dr. Kalam: T minus 30 days [30 days before the tests].

Are we now moving toward subcritical, hydronuclear, hydrodynamic, and computer simulation, including laser fusion techniques such as those in the national ignition facility in the United States?

Dr. Chidambaram: We are aware of the United States programs for inertial confinement fusion in which you hit a pellet with laser beams and simulate some kinds of phenomena. We have done what we have done.

Does India need further underground tests or will the completion of this series achieve this?

Dr. Chidambaram: This completes the planned series of underground tests.

There has been a Pakistani explosion?

Dr. Kalam: As of this press conference, it is not known to us. What we have done is for India's national security.

Can you confirm that it was a thermonuclear and not a boosted fission test?

Dr. Chidambaram: A thermonuclear weapon has two stages, a fission trigger and a secondary stage. A boosted fission device is not a hydrogen bomb. A hydrogen bomb must be two-part.

We hear that you are now going to separate the civil and military aspects of the program, with the Defense Research and Development Organization taking care of the military part and second, that you are now going to put your civilian reactors under safeguards.

R. CHIDAMBARAM, chairman of the Indian Atomic Energy Commission, and A. P. J. ABDUL KALAM, secretary of the Department of Defense Research and Development, answered press questions after India's nuclear tests on May 11 and 13. This is an edited transcript.

*On December 15, 1995, The New York Times reported that United States spy satellites had found increased activity at Pokaran, the site of the 1974 and this year's nuclear explosions. India officially denied on December 19, 1995, that it was planning to stage a test.

Dr. Kalam: I do not know what you are talking about. We coexist and cooperate. We do not have to take over each other's tasks.

Dr. Chidambaram: No.

Will sanctions affect the work of your two organizations?

Dr. Kalam: Technologically, we have faced sanctions for a long time. When we were refused the supercomputer, we went ahead and made our own. In the space program, because we were refused cryogenic engines, we have gone ahead and made our own, which should be ready next year. No one can trouble us technologically. There is a challenge to be met and we rise to the occasion.

Dr. Chidambaram: I would just like to add: for 20-odd years we have been facing technology control regimes. These may slow us down, but they also increase our self-reliance. Our nuclear program today is almost 100 percent indigenous.

How far is the nearest village from the test site?

Dr. Chidambaram: A little over 5 kilometers away—Khetolai. Our total yield was set by this.

So you can carry out tests with greater capacity?

Dr. Chidambaram: Yes.

Where is India in nuclear weapons technology today?

Dr. Kalam: The three tests on May 11—the hydrogen bomb, the fission device, and subkiloton device, as well as the two subsequent subkiloton devices—have proved clearly that our nuclear weapons technology has achieved a stage of self-reliance. If there is a demand for it, we shall do it.

Can these nuclear warheads be fitted on Prithvi and Agni missiles?

Dr. Kalam: The missiles we have can carry any type of warhead, conventional or nuclear, depending on the weight, size, and environmental specifications. The missiles are only carriers; they can even carry flowers.

The United States has stockpiled nuclear devices. What is the critical number for India?

Dr. Kalam: I have studied the issue of proliferation of nuclear weapons. The United States has some 10,000 warheads. Nuclear warheads are used for political and commercial purposes. In our area we have seen proliferation

for commercial interests. Our developments have nothing to do with this. Our development is for our national security.

Was the United States surveillance system deliberately fooled by you or was it accidental?

Dr. Kalam: No comment. We have done this job in the required way.

Is the Agni missile project now to be further developed?

Dr. Kalam: If needed, we can make it in the numbers required. The ranges can be adjusted, if needed for higher ranges.

How many seismometers were used and what is India's capability to distinguish background noise made from 3 simultaneous tests?

Dr. Kalam: We will not disclose this.

*There is speculation that the same site as was prepared for the 1995 tests was used this time. Is this the case?**

Dr. Chidambaram: At that time I said I do not respond to reactions of irresponsible reports in the media. I stand by this.

Was it prepared afresh from scratch?

Dr. Chidambaram: No comment.

After 1974, why has there been a delay of 24 years?

Unidentified: No comment.

From your five tests you have collected data. Can development now be done within the ambit of the Comprehensive Test Ban Treaty?

Dr. Chidambaram: Good question. But no comment.

Why was testing done in May? Why always May?

Unidentified: No particular reason.

What is the commonality to 1974 and 1998? What next?

Dr. Chidambaram: This is the next milestone. As appropriate, we'll tell you.

How long have scientists been ready?

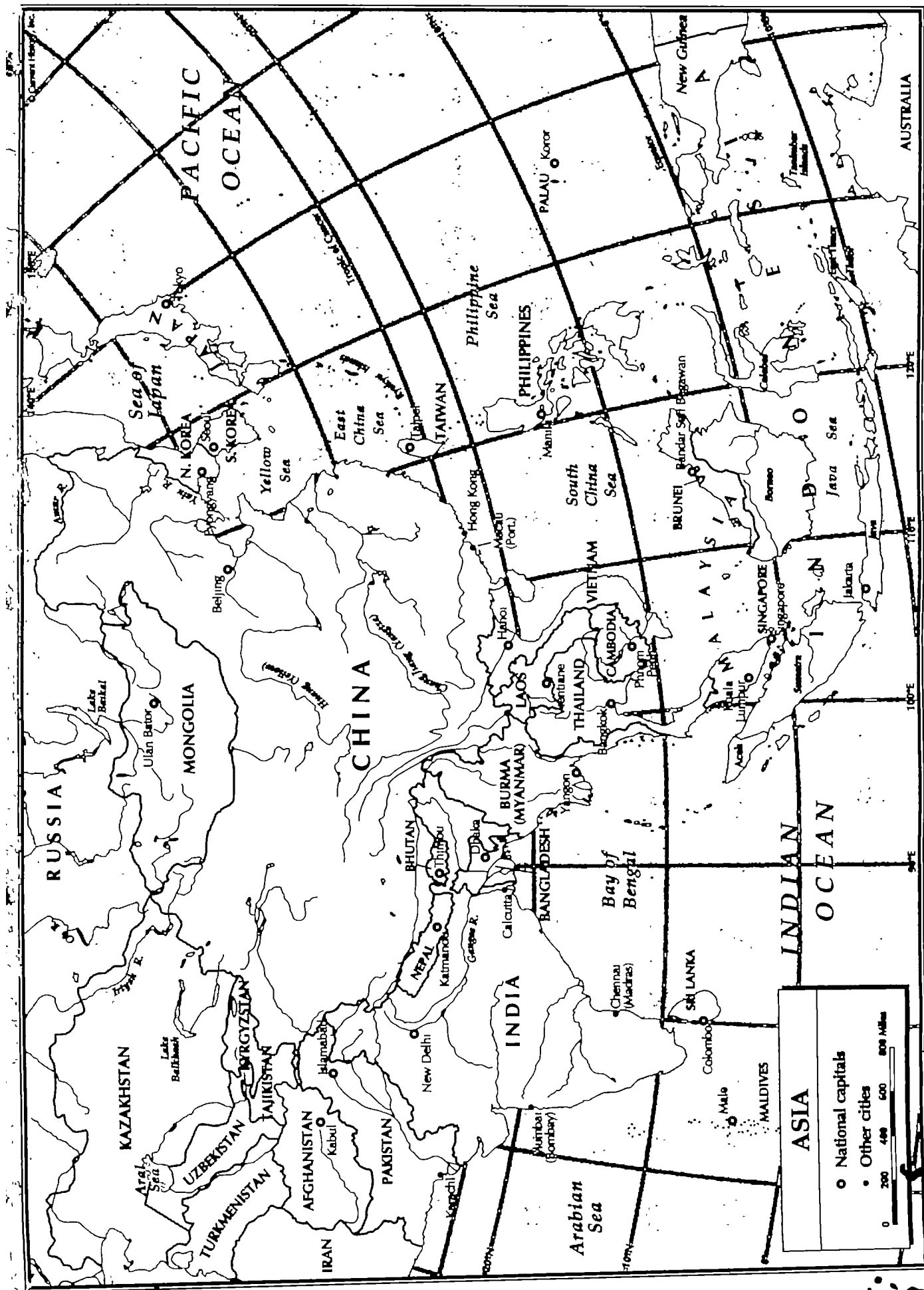
Dr. Chidambaram: Since 1974 we have had the knowledge. The technology and knowledge has been undergoing improvements and refinements.

Did you specifically prepare the tests so that they could not be detected?

Dr. Chidambaram: No.

But not even by the CIA?

Dr. Chidambaram: You must ask the CIA.



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